



# Stewardship Code

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## 1 Introduction

It is the responsibility of institutional investors to monitor and engage with investee companies so that the interest of the unitholders can be protected. Such activities are called Stewardship Responsibilities which ensure enhancement of value to the unitholders. Stewardship Code is in the form of a set of principles that are being uniformly adopted for institutional investors like Mutual Funds, Pension Funds, Foreign Portfolio Investors (FPIs), Alternate Investment Funds (AIFs) etc.

The importance of institutional investors in capital markets is increasing the world over; they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies with an intention to protect their clients' interests. 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.

Baroda BNP Paribas Asset Management India Private Limited, the Investment Manager of Baroda BNP Paribas Mutual Fund is responsible, in its fiduciary capacity, to act in the best interests of its unit holders which, inter alia, include monitoring and engaging with the investee companies.

The purpose of this policy is to describe the approach taken by AMC to stewardship based on the principles indicated by the Securities and Exchange Board of India (“SEBI”) vide circular reference no. CIR/CFD/CMD1/168/2019 dated December 24, 2019. The purpose of the Stewardship Code is to enhance the quality of engagement between institutional investors and the investee companies to help improve the Corporate Governance practices with a view to enhance long term returns to investors and the governance responsibilities. The Code is prepared on the basis of principles enumerated in the said SEBI circular. The Code shall act as guidance to the Investment team for discharging the stewardship responsibility.

This Code broadly requires AMC to follow the principles as described herein below:

## 2 Key principles to be followed:

### Principle 1: Formulation of policy, disclosure and review

AMC has adopted this policy for the discharge of its stewardship responsibilities, as per the process delineated herein.

- **Monitoring:** AMC shall monitor investee companies on its financial performance, short, mid and long-term business strategy and the material, environmental and social risks and corporate governance (especially board structure, constitution and directors' remuneration). The investment team continues to monitor each investee company based on internal classification for assigning priority to investee companies on the basis of various parameters including their size.

As a policy, AMC will not seek to nominate its representative on the Board of an investee company based on its investments in the investee company.

- **Engagement:** AMC shall engage with the investee companies in the following manner:
  - Primary intimation of material matters identified/expected through emails/letters, corporate reports
  - Meetings with management, board or relevant personnel to identify, deliberate on performance, strategy, material developments,
  - Evaluate its action from an adequacy point of view and if required, formalize an enhanced process to fill gaps.
- **Voting:** AMC considers voting to be an important shareholder right and a valuable tool in the engagement process and endeavors to vote on all board resolutions of investee companies, as per the Proxy Voting Policy adopted by AMC, which are critical for protecting and enhancing the investors' interests. The Proxy Voting Policy and the voting decisions are uploaded on AMC's website. AMC shall continue to engage with and vote on the various resolutions by the investee companies with

related disclosures being made available online.

- AMC may avail of external services for professional advice in seeking to implement its stewardship responsibilities. These external services may be utilized by AMC with a view to enable it to take informed decisions which would benefit all the relevant beneficiaries. The role of the service providers shall not be beyond providing company research reports, data and tools to assist AMC with reporting and ensuring regulatory compliance. For such external services, AMC shall ensure that scope is clearly laid down and upon AMC's review, ensure that the services are supplied to it in a proper and diligent manner.
- Availability and Review: The Code will be available on the AMC's website viz. [www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in) and will be reviewed on a periodic basis and at least once every year.
- Training: AMC may provide such training to employees involved in discharging stewardship responsibilities, as may be required.

## Principle 2: Managing conflict of interest

A conflict of interest is a situation where, in the framework of the activities of AMC, the interests of the AMC and/or of their clients and/or of their employees are in competition, either directly or indirectly. An interest is a benefit of any nature, material or immaterial, professional, commercial, financial or personal. This definition applies to real, potential or apparent conflicts of interests.

**Identifying conflict of interest:** Given below are a few instances where potential conflict of interest may arise:

- The investee company is a client of AMC and/ or its affiliates;
- In certain cases, wherein any affiliates of the AMC are lender to the investee company;
- The investee company is a seller whose products or services are important to the business of AMC and/or its affiliates;

- The investee company is a material service provider for the AMC or the schemes, e.g. custodian, fund accounting or Registrar and Transfer Agent to the schemes
- The investee company is an entity participating in the distribution of investment products advised or administered by the AMC and/or any of its affiliates.
- AMC and investee company are part of the same group or are associates;
- A director or a key managerial person of AMC has a personal interest in the investee company.

**Procedures to manage conflict of interest:** With a view to mitigate the above conflicts of interest, the Company would adopt the following approach:

- A potential conflict of interest in relation to an investee company shall be taken up with the Proxy Voting Committee and the Committee will at their discretion decide whether to exercise any right to vote or abstain. All decisions pertaining to votes will be taken in the best interest of the unit holders. In instances where the investments are in the group companies of AMC or the investee company has substantial investments in the schemes of Mutual Fund, the Proxy Voting Committee will specifically review all such proposals. The Proxy Voting Committee shall, at all times, have the discretion to decide to exercise a voting right or abstain from it. Rationale for each voting decision specifically in instances of conflict of interest, shall be recorded.
- Investment process as laid down in the applicable Investment Policies shall be followed by the Company.
- 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.
- Any person having any actual/potential conflict of interest in any investee company shall duly disclose such conflict of interest and recuse from decision making with respect to investment decisions as well as with respect to implementation of stewardship code, including voting exercise.

### Principle 3: Monitoring of investee companies

- The investment team including research analysts is responsible for monitoring performance of the investee companies.
- Areas of monitoring include:
  - Investee companies' business strategy and performance (operational, financial etc.)
  - capital structure,
  - leadership effectiveness,
  - succession planning (AMC shall to choose to intervene in the matter of succession planning if the same involves violation of the principles of corporate governance. The intervention in such an eventuality shall be confined to collaborating with other institutional shareholders and appropriate voting on proposed resolutions).
  - Risks, including Environmental, Social and Governance (ESG) risks
  - corporate governance parameters including 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.
  - instances of violation of shareholder rights and their grievances
  - industry level monitoring and possible impact on the investee companies.
- Once an investment is made, the investment team continues to monitor each investee company. The AMC uses an internal classification for assigning priority to investee companies on the basis of various parameters including their size. Investee companies where AMC has higher interest involves higher levels of monitoring as compared to companies where there is a lower interest.

- 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 analysts also use publicly available information, sell side research, research reports, media reports, annual reports, presentations sought from the companies on specific issues and industry. The investment team also ascertains effectiveness of internal controls mechanism.
- Any events concerning the investee companies (mergers, acquisitions, controversies, new launches, regulatory actions, employee layoffs, strikes etc.) are regularly tracked.
- While effort is made to ensure at least one interaction (call / meeting) with the management of the investee companies in a year, there might be instances where the management of the company is not accessible or where our investment team believes that there is no incremental information to be obtained from the management. In such cases, monitoring could be through other external sources, on a best effort basis.
- The principles of conflict of interest are kept in mind by the investment team, while engaging with the management of the investee company.
- AMC neither wishes to be made an insider in the investee companies nor wishes to be given price sensitive or business sensitive information which might have an impact on dealing with the shares of the companies. Nevertheless, while dealing with the investee company, AMC shall ensure compliance with legal and regulatory requirements including market abuse, SEBI (Prohibition on Insider Trading) Regulations, 2015.

#### **Principle 4: Intervention in Investee Companies and Collaboration with Institutional investors**

AMC would intervene in its investee companies, on a case-to-case basis, wherever it feels that intervention is required to protect value of the investments made by AMC in the companies on behalf of the unitholders and in discharge of its stewardship responsibility. The decision in this regard will be taken by the Chief Investment Officer (CIO) in



consultation with the Investment Team, Risk & Compliance team or any other authority as may be required.

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

- Poor financial performance of a company
- Poor corporate governance practices
- Excessive / unjustified Director/Executive remuneration
- Leadership issues
- Poor business strategy such as improper operation model, improper risk management, poor selection of geographical locations for procurement of raw materials and sale of finished products, etc.
- Prevailing ESG Risks
- Lawsuits/Litigations
- Poor disclosures (insufficient as per regulatory requirement)
- Non-compliance with applicable regulations.
- Significant change in promoter's shareholding
- Inequitable treatment of shareholders
- Resignation of top executives of the company such as Chief Executive Officer, Chief Financial Officer, one or more independent directors and/or change in Internal / Statutory Auditor during the year.
- Any other important issue like any adverse remark/observation from internal auditors or statutory auditors / Comptroller and Auditor General of India or in reports from any regulator such as RBI/SEBI/PFRDA/MCA, etc.

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

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

- **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. In such interventions, we shall ensure that a time bound plan to rectify or re-align the business practices or actions are discussed and agreed upon.
- **Re-Engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by AMC within a reasonable timeframe, AMC shall take all reasonable steps to re-engage with the management to resolve its concerns.
- **Escalation:** In case there is no progress despite the above two steps, the matter shall be discussed at AMC's Investment Committee meeting for further escalation to the Board of directors of the investee company. AMC may engage with the Board of the investee company (through a formal written communication) and elaborate on the concerns. Further, AMC may take appropriate steps to resolve the concerns including exiting its investments in the investee company.
- **Collaboration:** In some cases, collaboration with other shareholders may be the most effective manner to engage with the investee companies. Collaborative approach may not only be cost effective, but efficient and potent as well and is likely to deliver the desired results. Such collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.

AMC shall also consider engaging with the investee company through consultations/ collaboration with the other institutional investors, shareholders, whose interests are

aligned with AMC's interests and interest of its unitholders, in order to have a wider group of investors representing a larger proportion of shareholders to engage with the company. AMC shall also consider involving institutional investor association (e.g. AMFI) or industry associations or forums to engage with the investee company, if appropriate. It is only when AMC believes that the collaborative action would be an effective means by which investors can exercise appropriate influence, shall it be willing to initiate action or support other investors' actions.

In taking collaborative action, AMC shall individually determine its position and it shall not act or be construed as acting as a 'person acting in concert' with other shareholders and would always be cognizant of legal and regulatory requirements, including on market abuse, insider dealing and concerted party regulations.

- **Voting:** AMC will vote against in case the governance practices of the investee company are improper or abstain from voting in case of non-availability of proper information from the investee company(ies).
- **Legal Recourse:** AMC may take a legal recourse against a company if deemed necessary.
- **Blanket Bans:** AMC 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. The Voting Committee may review and place for removal of the name of such company, from the list of black-listed companies after a minimum period of one year, citing reasons in writing on the need to do so, and on specifically mentioning the corrective measures taken and results obtained therefrom by the investee company, on the same subject matter for which it was originally placed in the black-list.

The AMC shall also undertake regular assessment of the outcomes of such intervention.

### Principle 5: Policy on Voting

The Investment team shall follow the guidelines for voting on the resolutions of the investee company as specified in the Proxy Voting Policy.

### Principle 6: Reporting

- AMC shall report to its unit holders/ beneficiaries on how it has fulfilled its stewardship responsibilities as per this Stewardship Code through disclosures on the website in an easy-to-understand format.
- AMC will report on implementation of every principle at least on an annual basis. However, different principles may be disclosed with different periodicities. While disclosure on voting will be reported separately on a quarterly basis as per the Proxy Voting Policy, the rest of the principles will be reported annually.
- The disclosures will also be sent as a part of annual intimation to the unit holders/ beneficiaries.
- The AMC's commitment to comply with the aforesaid principles and fulfilling stewardship responsibilities 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 its unit holders/ beneficiaries.
- Any updations in this Stewardship Code will be disclosed on the website

### 3 Regulatory Reference

- SEBI issued circular no CIR/CFD/CMD1/168/2019 dated December 24, 2019