

# GOVERNANCE MEASURES AND VOTING PRINCIPLES

## OBJECTIVE/SUMMARY OF THE PROCEDURE

The objective of this policy is to ensure compliance with Circular no. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010 disclose their general policies and procedures for exercising the voting rights in respect of their shareholdings on their respective website as well as in the annual report distributed to the unit holders from the financial year 2010-11.

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**BNP PARIBAS**  
**ASSET MANAGEMENT**

The asset manager  
for a changing  
world

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## 1] Introduction:

This document outlines BNP Paribas Asset Management India Private Limited (referred to as AMC) expectations of public companies in which the AMC on behalf of its schemes invest. Our expectations are clearly laid out through a set of principles which create a framework by which AMC executes its ownership responsibilities.

The AMC believes that promoting good corporate governance standards is an essential part of its ownership responsibilities. Corporate governance refers to the system by which a corporation is directed and controlled. It relates to the functioning of the managing board, supervision and control mechanisms, their interrelationships and their relations with shareholders. Good corporate governance creates the framework that ensures that a corporation is managed in the long-term interest of shareholders. Therefore AMC expects all corporations in which the investments are made to comply with high corporate governance standards.

The Securities Exchange Board of India (SEBI) vide its Circular no. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010 mandated all the AMCs to disclose their general policies and procedures for exercising the voting rights in respect of their shareholdings on their respective website as well as in the annual report distributed to the unit holders from the financial year 2010-11. The said disclosures shall also include the actual exercise of their votes in the AGMs/EGMs of the investee companies in respect of following matters:-

- a. Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti takeover provisions.
- b. Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
- c. Stock option plans and other management compensation issues;
- d. Social and corporate responsibility issues.
- e. Appointment and Removal of Directors.
- f. Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.

Further, SEBI vide its SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2021/29 dated March 05, 2021 has mandated that:

1. Mutual Funds including their passive investment schemes like Index Funds, Exchange Traded Funds etc. shall be required to cast votes compulsorily in respect of the following matters/resolutions effective April 01, 2021:
  - i. Matters as mentioned above under SEBI Circular SEBI/IMD/CIR No 18/ 198647 /2010 dated March 15, 2010
  - ii. Related party transactions of the investee companies (excluding own group companies).  
For this purpose, ***“Related Party Transactions” shall have same meaning as assigned to them in clause (zc) of Sub-Regulation (1) of Regulation (2) of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.***
2. Further, Mutual Funds shall be required to compulsorily cast their votes for all matters/resolutions with effect from April 01, 2022.

The first section of this document outlines our key governance and voting principles. The second section describes our voting approach and process. The final section provides detailed guidance on how the voting will be done on the most common voting items.

## 2] Governance Measures and Voting Principles:

**These following principles describe AMC' expectations of public companies in which investments are made. They act as a guiding framework by which AMC on behalf of BNP Paribas Trustee India Private Limited executes the ownership responsibilities. These governance measures and voting principles shall be applied to all the companies including the group /associate companies of the AMC and to the companies that have subscribed to the units of the schemes.**

1. Act in the long-term interests of shareholders: The overriding objective of companies should be the creation of long term shareholder value. Corporate governance practices should focus board attention on this objective and there needs to be clear strategy in place in order to achieve this. As part of achieving this objective companies need to establish good environmental and social performance as this helps protect long term returns.
2. Align incentive structures with long-term interests of shareholders: Corporate incentive structures need to be aligned with longer-term shareholder interests. Whilst compensation programs should not restrict the **company's ability to attract** and retain talented executives, they should not exceed what is required and they should not contain backdated components.
3. Ensure strong independent presence within board structure: The board should include a strong presence of independent non-executive directors such that no individual or small group of individuals can dominate the **board's decision taking. Companies should establish key committees of the board which include the audit, compensation and nomination/ governance committees.** The proper working of these committees should be safeguarded by an adequate representation of genuinely independent directors.
4. Disclose accurate, adequate, and timely information: Companies should disclose financial and operating results, ownership issues, and performance on key environmental, social, and governance (ESG) issues in an open and honest way. Annual audits of the financial statements carried out on behalf of shareholders should be required for all corporations. The audit must be carried out by independent external auditors.
5. Treat shareholders equitable and protect minority rights: Companies should ensure that the rights of all investors are protected. Shareholders should have equal access to information. Capital and voting structures are fundamental. The company ownership structure should feature one vote for each share. Shareholders should have the right to participate in key corporate governance decisions, including the right to nominate, appoint and remove directors individually, the right to appoint the external auditor and the right to approve major decisions which have material impact upon shareholder interests.
6. Facilitate the execution of shareholders rights: Shareholders should have the right to vote on key decisions concerning fundamental corporate changes, such as amendments to the articles of association, the authorisation of issuance or repurchase of shares, extraordinary transactions, key corporate governance decisions, remuneration schemes, and protection mechanisms against hostile takeovers. Shareholders should have the opportunity to place items on the agenda of shareholder meetings, propose resolutions, and call a shareholder meeting in accordance with local rules and regulations. Companies need to provide shareholders with reasonable notice of all matters on which they can exercise their voting rights.
7. Ensure good environmental and social performance: AMC believes that good social and environmental performance protects shareholders longer term interests. Companies should therefore demonstrate that appropriate management structures are in place and provide full disclosure of their environmental and social practices and performance to investors.

AMC is a part of BNP Paribas Group with many affiliates, which may possibly lead to a situation creating conflict of interests. In addition, conflict may arise in situations such as:

- AMC may proxy vote in relation to an investee company in which **AMC's** client has an interest and/or is AMC's affiliate company.
  - **In certain cases, the AMC's affiliate may be a lender to the investee company.**
  - The investee company in engaged by AMC for distribution or products/services offered by AMC etc.
- In any such situation where AMC may face a conflict of interest, AMC shall make its best efforts to avoid any such conflict and ensure that such conflicts are resolved in the best interest of its unitholders. The voting guidelines, approach etc. enumerated in this policy should help manage such conflict of situation.

### 3] Voting Approach: Decision making process:

The internal mechanism for review and control process is stated below:

#### 3.1 AMC Approach:

AMC shall vote in the interest of its unit holders. AMC shall act with appropriate care, skill, prudence and diligence.

All unit holders are hereby informed that this policy and voting procedures are in place and uploaded on the AMC website [www.bnpparibasmf.in](http://www.bnpparibasmf.in). All unit holders are afforded the opportunity to obtain information concerning the voting record of shares held for their beneficial interest on this website in the format specified by SEBI.

#### 3.2 The Voting Committee (VC):

The AMC has constituted a Proxy Voting Committee to decide on the voting matters. This Committee is empowered to establish voting guidelines and is responsible to ensure that these guidelines and procedures are followed. As voting is considered as an integral part of the investment process, the final responsibility for voting lies with the Head – Equities.

The members of this Committee shall be as follows:

- Head – Equities
- Fund Managers (Equity)
- Compliance Officer and AVP - Compliance, Legal & Secretarial
- Managing Director & CEO, by whatever designation called, (member holding veto powers to participate only for special situations e.g. Mergers & Acquisitions and where the Proxy Voting Committee decides to vote **'Against' certain resolution/ proposal. The decision of the CEO shall be final**)

Quorum of the Committee shall be atleast 2 members, one of whom shall be the Head of Equities, and in his absence Managing Director & CEO'. Frequency of the meeting shall be on receipt of the meeting notice from the specified companies.

#### 3.3 Voting Process:

The following points outline the key steps of the voting process from the notification of voting agendas in the context of Annual General Meetings (AGM) or Extraordinary General Meetings (EGM) to actual voting execution:

- a. Custodian sends meeting notices/ballots to AMC.

- b. The VC shall obtain 100% of holding of companies across Equity Universe from the Operations department as and when received from the Custodian. The VC shall vote only for those companies where in as of record date, the company has holdings under the Schemes and it reflects in the portfolio as on that date.
- c. Analysis and recommendation by VC according to voting policy.
- d. Voting execution by authorised representative of AMC.

In matters that are not deemed routine, the VC will review the issue and arrive at a voting decision. Voting on **these “non-routine” matters requires a quorum of two VC members.**

The Compliance Officer **will maintain records of the VC actions with regard to these “routine/non-routine”** matters and ensure compliance with the SEBI Circular no. SEBI/IMD/CIR No 18 / 198647 /2010 dated March 15, 2010 and SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2021/29 dated March 05, 2021.

Mechanism for voting

With the introduction of voting through electronic means, authorised representative of AMC cast its votes on the voting platforms offered by NSDL/CDSL or such other service providers. At times, even after voting through electronic means, the representative from AMC may attend the general meetings as it may provide an opportunity to engage with the company and pose queries to the directors of the investee companies. Where e-voting is not mandated, or in cases where e-voting may not be possible, AMC may vote through proxy.

#### 4] Voting Guidelines:

This section provides detailed information on how AMC will vote on the most common voting items.

##### 4.1 Financial Statements / Director and Auditor Reports:

AMC will generally vote FOR the approval of financial statements unless:

- The statutory auditors express material/significant reservations or refuse to certify the accounts after having discovered serious irregularities.
- The general policy of the company management is clearly in contradiction with shareholder interests.

##### 4.2 Appointment of Auditors and Approval of Audit Fees:

AMC will vote FOR the appointment or re-election of auditors and proposals authorizing the board to fix the audit fees unless:

- An auditor has a financial interest or association with the company and is therefore not independent.
- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor **indicative of the company's financial position.**
- **The board has failed to disclose the company's audit and non-audit fees.**

##### 4.3 Article Amendments:

AMC will evaluate proposals seeking amendments to the articles of association case by case, based on the given circumstances and on how the proposals would affect shareholder rights and interests.

##### 4.4 Board elections:

Board Independence: The board should include a strong presence of independent non-executive directors so that **no individual or small group of individuals can dominate the board's decision taking.** Based on these considerations AMC will vote as follows:

AMC will oppose a non-independent nominee if:

- Less than half of the board is composed of independent non-executive directors (Exception: In cases of a board with at least 50 percent of compulsory employee representatives and companies with a majority shareholder a minimum 33 percent of independent nonexecutive directors is acceptable).
- More than one-third of the board composed of executive directors.
- Less than three independent directors on the board.
- Nominee would serve both as chairman and CEO

Outside directorships: For markets where outside directorships are consistently disclosed, AMC will generally oppose executives and non-executives that hold an excessive number of outside directorships.

Director attendance on board meetings: For markets where board attendance is consistently disclosed AMC will generally oppose board nominees who have had a very low level of attendance.

Board Size: AMC expects boards to be neither so small to lack needed expertise or diversity in experience, nor so large as to become inefficient and hinder decision-making.

Board Terms: **AMC will generally oppose the whole board if the company's board terms exceed local market best practice.**

Board Information: For markets where information on directors is consistently disclosed AMC will generally oppose board nominees if sufficient biographical information on the candidates has not been provided on time.

#### 4.5 Discharge of Board and Management:

AMC will oppose discharge resolutions if:

- There are serious questions about actions of the board or management for the year in question.
- Legal action is being taken against the board by other shareholders.

Additionally, AMC will also vote AGAINST proposals to remove the approval of discharge of board and management from the agenda.

#### 4.6 Remuneration of directors:

- Approval of pay packages: AMC favours full disclosure of all remuneration components for each director serving on the board in order to vote in favour of a resolution approving remuneration. The different components making up the pay need to be identified and their respective policies explained. The pay should be transparent enough for shareholders to allow them to distinguish the remuneration of executives from that of non-executive directors.
- Remuneration of Non-Executive directors: AMC believes that the remuneration of non-executives should not be linked to short-term financial results. Remuneration could be paid in shares in accordance with the Companies Act, 2013 and Rules thereunder.
- Remuneration of Executive directors: Executive directors should be motivated by variable remuneration linked to company performance. A fixed salary, which should be determined by the Board according to the recommendation of the Remuneration Committee. It must be reviewed regularly by the Remuneration Committee. Variable performance linked remuneration components are meant to reward exceptional performance and as such should ideally be linked to a peer group benchmark.

#### 4.7 Share Issuance Requests:

A planned capital increase should attribute subscription rights to existing shareholders and to those with rights to shares. In weighing the appropriateness of an exclusion of such rights, AMC will carefully take into account the interests of both company and investors.

#### 4.8 Authorized Capital:

AMC will vote FOR specific proposals to increase/decrease authorized capital, unless the specific purpose of the increase (e.g. a share-based acquisition or merger)/decrease does not meet guidelines for the purpose being proposed.

#### 4.9 Share Repurchase Plan/Buy Back of Shares:

AMC will vote FOR share repurchase plans subject to necessary compliances with the applicable regulations/act.-

#### 4.10 Debt restructuring:

AMC considers proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan as non-routine and will evaluate such proposals based on the following criteria:

- Dilution, both of the ownership interests of existing shareholders and to future earnings.
- Whether the proposal would result in a change of control at the company.
- The threat of bankruptcy, its potential impact on shareholder value and whether a bankruptcy is the main factor driving the restructuring.

AMC will generally oppose the proposal if there are clear signs of market abuse.

#### 4.11 Mergers and Acquisition:

Votes on mergers and acquisitions are considered as non-routine items by AMC. Given the complex nature of most merger and acquisition proposals, such issues will be reviewed on a case by case basis from transparency, corporate governance as well as financial point of view. Issues that will be taken into account include:

- The impact of the merger on shareholder value
- The offer price i.e., cost vs. premium
- Financial viability of the combined companies as a single entity.
- **An analysis of the arm's length nature of the transaction, potential conflicts of interest and an assessment of the deal maker's "good faith".**
- The presence or lack of a fairness opinion.
- Proposed changes in corporate governance and their impact on shareholder rights.
- Impact on community stakeholders and employees in both workforces.

CEO reserves the decision making rights in such matters.

#### 4.12 Corporate Restructuring:

Corporate restructuring proposals are items linked to changes in the company structure, such as Spin-offs, Asset sales and Liquidations. Votes concerning corporate restructuring are considered non-routine and evaluated on a case by case basis. Issues that will be taken into account include:

##### Spin-offs

- Potential tax and regulatory advantages
- Planned use of proceeds
- Market focus and managerial incentives.

##### Asset Sales

- Impact on the balance sheet and working capital
- Value received for the asset and the potential elimination of diseconomies.



## Liquidations

- **Management's efforts to pursue other alternatives**
- Appraisal value of the assets

## 4.13 Shareholder Proposals:

In order to prevent potential abuse against the interests of the company, minority shareholders should be able to exert influence through such means as convening a general meeting and submitting agenda items to take action on behalf of the company where the majority rule governing the general meeting may cause damage to the company.

## 4.14 Voting Procedures:

- Confidential voting (secret ballot): AMC supports the introduction of confidential voting, in order to enable all shareholders to vote freely without being inhibited by any personal or material ties.
- Voting: AMC may vote through ballot (as the case may be) or appointed proxy/ representative.

## 4.15 Inadequate Information:

AMC will oppose proposals that are presented with inadequate information to make informed voting decisions or do not give shareholder ample time to evaluate all relevant information.

## 4.16 Environmental and Social Performance:

There are an increasing number of shareholder resolutions on social and environmental issues addressing a wide range of issues including climate change, human rights and workforce issues. In general, AMC believes that good social and environmental performance protects shareholder longer term interests. Therefore AMC will vote FOR resolutions that help to improve social and environmental performance while contributing to the protection of long term shareholder value.

## 5] Cost of Voting:

The Committee may take in to account the location of the general body meeting, number/percentage of shares held, impact of exercising or otherwise of Voting on the possible outcome, cost of voting (cost of travel and executive time) and determine whether it is not in the best economic interests of unitholders/scheme to vote proxies.

## 6] Use of services of voting advisors:

Member(s) of the VC may use their discretion to avail the services of voting advisor to aid in arriving at voting decision. As such, services of voting advisors may be availed so long as the voting advisor are able to make recommendations consistent with the objective of unitholder value maximization and that their recommendations do not reflect other considerations. The VC (or any of its Member) shall not be bound with the **voting advisors' recommendations** and it is permitted to use its own discretion whether to rely and/or act on the recommendations of such advisors. Additionally, where such services are being availed, AMC shall disclose details relating to such voting advisor such as (a) scope of such services; (b) details of service providers, (c) extent to which the investors rely upon / use recommendations made by such services on its website.

7] Transparency & Reporting:

AMC is committed to transparency with regards to its voting approach and execution. A copy of this policy can **be accessed at the AMC's website. A regular 'Update Report' is published on the website which provides an analysis of proxy voting activities.** AMC shall ensure such report is disclosed on quarterly basis on its website and on an annual basis in the annual report as per timelines and in the format prescribed by SEBI. Such report

shall include details such as name of company, details of resolution, actual voting done by AMC, rationale for the voting decision.

Investors should ensure themselves that they read the last available version of this document.

#### Disclaimer

AMC understands its fiduciary duty to vote and that voting decisions may affect the value of shareholdings. Therefore, AMC will generally attempt to process every proxy it receives for all domestic securities. However, there may be situations in which AMC may be unable to vote a proxy, or may chose not to vote a proxy, such as where: (i) proxy ballot was not received from the custodian, (ii) a meeting notice was received too late; (iii) the Investment Manager believes it is not in the best interest of the investors to vote the proxy for any other reason not enumerated herein, (iv) where the AMC has no economic interest on the day of voting etc.

The vote will be cast at Mutual Fund Level. However, in case Fund Manager/(s) of any specific scheme has strong view against the views of Fund Manager/(s) of the other schemes, the voting at scheme level will be allowed subject to recording of detailed rationale for the same.