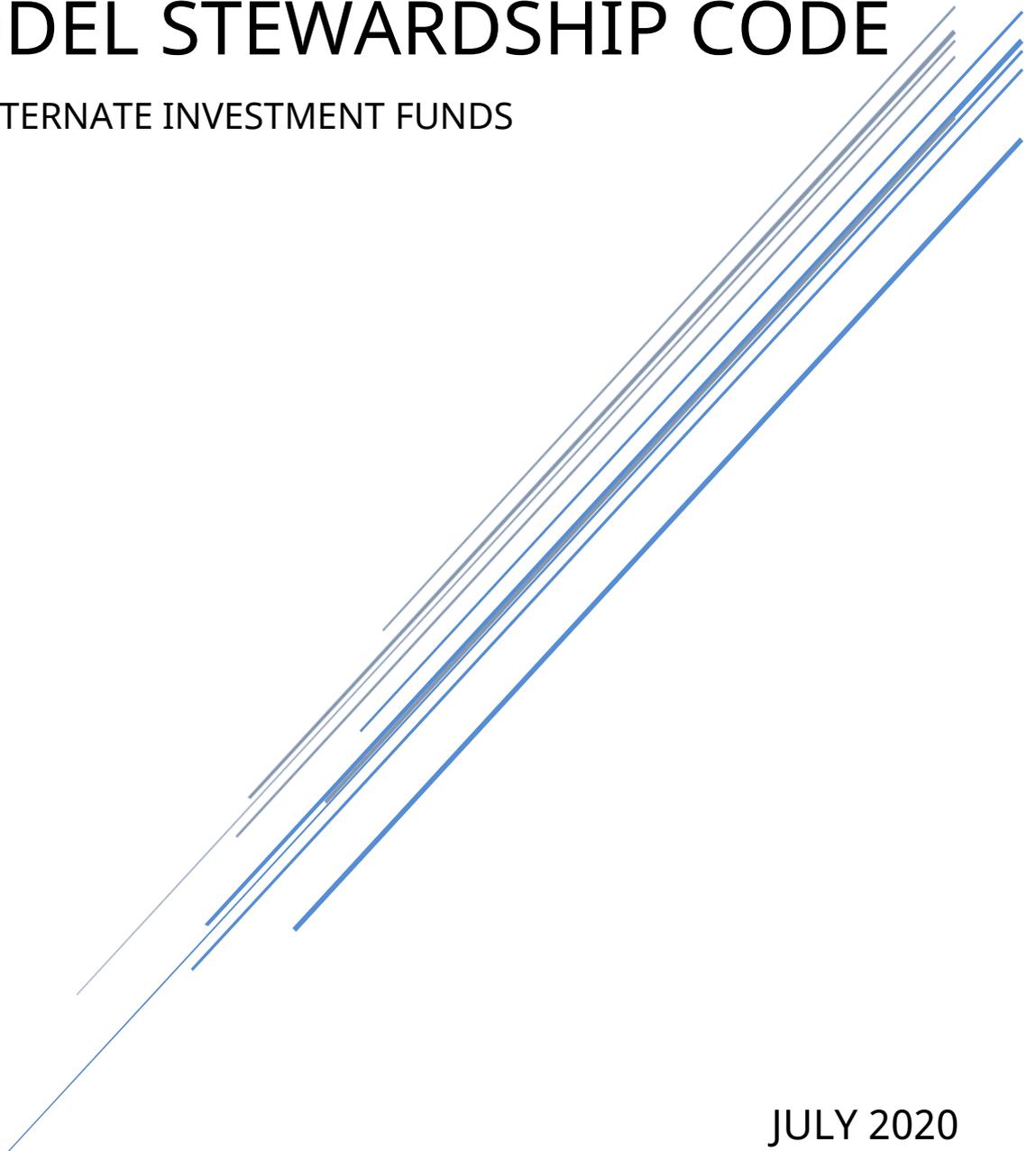


# MALABAR INVESTMENTS MODEL STEWARDSHIP CODE

FOR ALTERNATE INVESTMENT FUNDS



JULY 2020

*for private circulation only*

# Table of Contents

I	Introduction	2
II	Model Stewardship Code for Alternate Investment Funds	4
1	Key Stewardship Responsibilities	4
2	Managing Conflict of Interest	7
3	Monitoring Investee Companies	9
4	Active Intervention in Investee Companies and Collaboration with Institutional Investors	11
5	Voting and Disclosure of Voting Activities	14
6	Reporting of Stewardship Activities	15
III	SEBI's stewardship principles for AIFs	17

# Introduction

Stewardship is the responsibility attributed to an institutional investor to monitor, oversee and manage the capital invested in companies in order to create long-term value for its clients /beneficiary. Stewardship code is a set of principles or guidelines aimed primarily at institutional investors, who hold shares, and thus, voting rights in investee companies to fulfill its fiduciary obligations towards clients /beneficiaries. At the investee company level the stewardship codes promote high standards of corporate governance by requiring investors to monitor and, where necessary, engage with companies on material matters, including environmental, social, governance, strategy, performance and risk issues and to vote their shares at company AGMs and EGMs.

Companies and investors have a symbiotic existence: companies need investors, just as much as investors need companies. Consequently, effective stewardship and effective governance go together. For a company to be able to act in the investors' best interest, it also needs to understand the investors' perspective. The stewardship code sets out a framework that encourages the investors to engage with companies they have invested in and their boards. This benefits both, the companies and the investors.

Stewardship codes are being introduced globally. After the UK adopted a Stewardship Code in 2009, about eight other countries have similarly mandated stewardship requirements, including a few Asian countries such as Malaysia, Japan, and Taiwan. Today, approximately 19 countries have mandated stewardship codes for the investors either as 'comply or explain' or mandatory compliance formats. There are certain global organizations and associations such as OECD, European Union and International Corporate Governance Network, which also prescribes Global Stewardship Principles for voluntary adoption by the global investment community. Under the umbrella of a stewardship code, investors have been able to achieve different agendas – from getting more independent directors on boards, to ensuring that annual reports are being published in time.

India, to a large degree, has relied on regulations to evolve its corporate governance agenda. The more recent regulations have balanced this agenda by empowering the shareholders to assert their rights – in the form of more convenient voting processes, and requisite specific approvals in the case of related party transactions. However, these measures are effective only on

specific issues. To build a wholistic environment that rewards good governance practices, the institutional investors must undertake focused stewardship activities.

While the Securities and Exchange Board of India (“**SEBI**”) has long since mandated mutual funds to vote on shareholder resolutions, the Insurance Regulatory Authority of India (“**IRDA**”) on March 22, 2017 prescribed stewardship principles to be adopted and implemented by the insurers. Insurers were required to adopt a policy based on the Stewardship Principles on or prior to September 21, 2017. The Kotak Committee on Corporate Governance recommended that as the capital market regulator, SEBI must outline stewardship principles for institutional investors. As a result, in December 2019, SEBI published the circular on Stewardship Code for all categories of Alternate Investment Funds (“**AIFs**”) and all mutual funds and (“**SEBI Circular**”). The SEBI Circular list out the stewardship principles to be adopted by mutual funds and all categories of AIFs (“**Stewardship Principles**”) and requires them to adopt a stewardship code based on such principles, to be applicable with effect from the financial year 1 April 2020. The Stewardship Principles are enclosed in the Annexure.

## **MALABAR INVESTMENTS (MALABAR)**

Malabar has been always guided by two basic principles: “Always Do the Right Thing” and “Client Comes First”. As a result, it has always been able to follow highest standards of ethics while interacting with investors, investee companies, service providers and its own team members. To take it to the next level, Malabar has become signatory to UNPRI (United Nations Responsible Investment Policy), an UK based association of asset managers across the world, advocating highest standards of ESG policy.

For each of the principle, Malabar sets out a suitably customized version of the basic policy in compliance with the SEBI requirements. While customizing the same, Malabar has also considered the international best practices providing for higher stewardship standards in the spirit of promoting corporate governance.

In case you have any questions regarding the code, please write to [ketan.shah@malabarinvest.com](mailto:ketan.shah@malabarinvest.com) or [akshay.mansukhani@malabarinvest.com](mailto:akshay.mansukhani@malabarinvest.com)

# MALABAR Model Stewardship Code for Alternate Investment Funds

Stewardship aims to promote the long-term success of investee companies in a manner that the ultimate providers of capital also prosper. Effective stewardship benefits investee companies, asset managers, investors and enhances the quality of capital markets.

**“MALABAR VALUE FUND” AND “MALABAR MIDCAP FUND” (“AIF”)** has adopted this Stewardship Code pursuant to the approval of the Malabar Fund Managers LLP, the Investment Manager of the AIF and, is effective from 1 July 2020.

The term “AIF’s employees, officers and directors” includes employees, officers and directors and partners of the investment manager of AIF, Malabar Fund Managers LLP.

## 1. Key Stewardship Responsibilities

1.1. Primary Stewardship Responsibilities: The AIF shall:

- a) in the investment process, in addition to financial and operational performance metrics, take into consideration the investee companies’ policies and practices on environmental, social and corporate governance matters;
- b) enhance shareholder/investor value through productive engagement with investee companies on various matters including performance (operational, financial, etc.), corporate governance (board structure, executive remuneration), material environmental, social and governance (“ESG”) risk or opportunities, capital requirements and deployment, strategy, entering a new sector or jurisdiction, etc.;
- c) vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
- d) advocate the development of corporate governance standards and corporate responsibility;
- e) be accountable to shareholders/investors within the parameters of professional confidentiality and regulatory regime; and
- f) maintain transparency in reporting its voting decisions and other forms of engagement with investee companies.
- g) disclose its stewardship policy and activities to its shareholders/investors on a periodic basis

- 1.2. Discharge of Stewardship Responsibilities: The AIF shall discharge its stewardship responsibilities through:
  - a) using resources, rights and influence available at their disposal;
  - b) Attend investor calls and quarterly results update meetings
  - c) Shall endeavor to have detailed discussions with the management and interactions with the investee company managements and boards;
  - d) voting on board or shareholders' resolutions, with a view to enhance value creation for the shareholders/investors and the investee companies;
  - e) advocating for responsible corporate governance practices, as a driver of value creation; and
  - f) Opine on material ESG opportunities or risks in the AIF's investee companies.

- 1.3. Responsibility for oversight of the stewardship activities:

The Designated Officer of the AIF ("**DOA**") shall ensure that there is an effective oversight of the AIF's stewardship activities. The AIF may conduct training for the personnel involved in implementing the Stewardship Principles, by holding internal or attending external sessions/workshops on Stewardship Principles and reviewing the global / national best practices.

- 1.4. Disclosure of Stewardship Code: This Stewardship Code and amendment thereto, may be disclosed on the Malabar Website and to the concerned parties on request.
- 1.5. Disclosure of Stewardship Activities: The AIF shall disclose its voting on shareholder resolutions of investee companies on an annual basis on the Malabar Website and to the concerned parties on request. However, it would be disclosed without names of investee companies.
- 1.6. Periodic review of Stewardship Code: The Stewardship Code shall be reviewed annually (or earlier if there are any material developments) and updated, which should be endorsed by the Designated Officer of the AIF.
- 1.7. Use of proxy advisors in discharge of stewardship activities: The AIF may use the service of Institutional Investor Advisory Services ("IiAS") / other proxy advisor to support its stewardship activities. Institutional Investor

Advisory Services India Limited (IiAS) is an advisory firm, dedicated to providing participants in the Indian market with independent opinion, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions for over 800+ companies. IiAS provides bespoke research, valuation advisory services and assists institutions in their engagement with company managements and their boards. IiAS was incorporated on 24 June 2010. IiAS is registered with the Securities and Exchange Board of India (SEBI) as a research entity.

## 2. Managing Conflict of Interest

- 2.1. The term “conflict of interest” refers to instances where personal or financial considerations may compromise or have the potential to compromise the judgment of professional activities. A conflict of interest exists where the interests or benefits of the AIF (including its employee, officer or director) conflict with the interests or benefits of its shareholder/investor or the investee company.
- 2.2. Avoid conflict of interest: The employees, officers and directors of the AIF shall undertake reasonable steps to avoid actual or potential conflict of interest situations. In the event of any doubt as to whether a particular transaction would create (or have the potential to create) a conflict of interest, employees, officers and directors shall consult with the Designated Officer of the AIF.
- 2.3. Identifying conflict of interest: While dealing with investee companies, the AIF may be faced with a conflict of interest, *inter alia*, in the following instances, where:
- a) the AIF and the investee company are associates or are part of same group; or
  - b) the investee company is also a client of the AIF or its group companies or affiliates;
  - c) the AIF is a lender to the investee company;
  - d) the investee company is partner or holds an interest, in the overall business or is a distributor for the AIF’s group;
  - e) any of the group companies or affiliates of the AIF is a vendor or partner of the investee company;
  - f) a nominee of the AIF has been appointed as a director or a key managerial person of the investee company or cross-directorships;
  - g) a director or a key managerial person of the AIF has a personal interest in the investee company (Except as a Retail Shareholder);
  - h) the AIF (including its employee, officer or director) is likely to make a financial gain, or avoid a loss, at the expense of a shareholder/investor or the investee company.
- 2.4. Manner of managing conflict of interest:
- a) The AIF including its employees, officers and directors shall refer all conflict of interest or suspected conflict of interest to the Designated

Officer of the AIF. The Designated Officer of the AIF shall maintain records of the minutes on such decisions.

- b) On an annual basis, every employee, officer and director of the AIF must submit a securities statement setting out the details of the securities of listed companies and unlisted companies held by him/her (including the securities held by his/her immediate relative).
- c) Rationale for voting on each shareholder resolution shall be recorded in the internal records of the AIF.
- d) A potential conflict of interest in relation to an investee company shall be reasonably highlighted in the internal compliance system.
- e) Employees, officers and directors of the AIF will record their outside appointments/professional engagement with the Designated Officer.
- f) Save as in the ordinary course of business, AIF employees, officers and its directors shall not engage with the investee companies outside the scope of their duties under the Stewardship Code.
- g) The AIF will abstain from voting if the AIF and the investee company are part of the same group.
- h) The interests of the clients / beneficiaries will take precedence over the interests of the AIF (and its employees, directors and officers). Therefore, the AIF will vote in the interests of its clients / beneficiaries.
- i) A clear segregation between the investment teams, voting functions and the Business Team shall be maintained.
- j) Business level conflicts shall be resolved on a case to case basis by the Designated Officer of the AIF after factoring the relevant considerations.
- k) Conflicted employees, directors and officers will not be allowed to participate in the discussions and voting decisions / transactions in which they are interested.

- 2.5. Periodic review and updates to the conflict of interest policy: The Designated Officer of the AIF shall review the manner in which conflict of interest are arising and how they are being resolved annually (or earlier if there are any material developments) and adopt necessary actions, and disclose publicly any material developments.

### **3. Monitoring of Investee Companies**

3.1. The AIF shall monitor their investee companies.

3.2. Manner of Monitoring:

- a) The AIF, with its employees, officers and directors, shall be responsible for the supervision of the monitoring of the investee companies' business strategy and performance, industry risk and opportunities, impact the investee companies make, risk, capital structure, leadership effectiveness, succession planning, remuneration, corporate governance performance including remuneration, structure of the board (including board diversity, independent directors etc.), related party transactions etc., risks including cultural and ESG risks, shareholders rights, their grievances etc. among other matters.
- b) The AIF may use publicly available information, sell side research and industry information and shall engage with the investee companies' investor analyst calls at least once in a year, to monitor the investee companies.
- c) The AIF shall inform the investee companies to not share any unpublished price sensitive information with the AIF which would make the AIF an 'insider', without a specific prior agreement with the AIF. While dealing with the investee company, the AIF shall ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015. AIF shall identify situations which may trigger communication of insider information and the procedures adopted to ensure insider trading regulations are complied with in such cases.

3.3. Identify the responsibilities of the investee companies:

The AIF shall review the investee companies' business strategy and performance, industry risk and opportunities, impact the investee companies make, risk, capital structure, leadership effectiveness, succession planning, remuneration, corporate governance including structure of the board (including board diversity, independent directors etc.), related party transactions etc., risks including, cultural, social and environmental matters shareholders rights, their grievances etc. among other matters.

3.4. The AIF shall actively monitor investee companies, where the total investment value is Rs.10 Crores or more, holds at least 1% or more of the

shareholding of the investee company and the investee companies have not been earmarked for divestment.

- 3.5. As and when required, the AIF may periodically review and measure the effectiveness of their monitoring activities and take suitable steps.

#### **4. Active Intervention in the Investee Company and collaboration with other institutional investors**

##### **4.1. Applicability**

- a) The AIF may intervene in the acts/omissions of an investee company, in which it has invested Rs.10,00,00,000, holds at least 1% of the share capital of the investee company and the investee companies have not been earmarked for divestment.
- b) The AIF may intervene if, in its opinion any act/omission of the investee company is considered material on a case to case basis, including but not limited to poor financial performance, insufficient disclosures, inequitable treatment of shareholders, non-compliance with regulations, performance parameters, ESG issues, leadership concerns, related party transactions, corporate plans/ strategy, CSR, litigation or any other related matters.

##### **4.2. Intervention by the AIF: The decision for intervention shall be decided by the DOA based on the following broad parameters:**

- a) The AIF may not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment.
- b) The AIF may consider intervening in matters below the thresholds, if in the reasonable opinion of the DOA, the issue involved may adversely impact the overall corporate governance atmosphere or the AIF's investment.
- c) The AIF may not intervene even after the investee company meets the threshold as listed above, if the DOA deems fit to do so at that point of time after considering all relevant factors.

##### **4.3. The AIF's intervention and escalation policy is as follows:**

- a) **Engagement:** The AIF shall take all reasonable steps to address its concerns, including steps to be taken to mitigate such concerns, with the investee company's management through participation in investors calls and general meetings.
- b) **Re-engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by the AIF within a reasonable timeframe, the AIF

shall take all reasonable steps to re-engage with the management to resolve the AIF's concerns.

- c) Escalation: In case there is no progress despite the first two steps, the AIF shall escalate the matter to the DOA. If the DOA decides to escalate, the AIF shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. The AIF may also consider voting against the relevant matters.
- d) On case by case basis, the AIF may consider other intervention mechanisms such as (i) expressing their concern collectively with other investors or through AIFs associations; (ii) making a public statement; (iii) submitting shareholders resolution or voting against decisions etc.; (iv) submitting one or more nominations for election to the board as appropriate and convening a shareholders meeting; (v) seeking governance improvements and/or damages through legal remedies or arbitration; and (vi) exit or threat to exit from the investment as a last resort.
- e) Reporting to the Regulators: If there is no response or action taken by the investee company despite the first three steps, the AIF may approach the relevant authorities/ regulators after necessary approval of the DOA.

In case the AIF's intervention is not successful (either fully or partially), it will not automatically result in the AIF being required to exit its investment in the investee company. The decision to purchase more equity or sell all or part of the AIF's investment in the investee company shall be made by the DOA, which may consider the outcome of the intervention as an input in its decision-making process.

#### 4.4. Collaboration with other institutional investors:

- a) The AIF may consider collective engagement with other institutional investors [*and other investors / advisors / proxy / voting advisory firms*] on a general basis and in particular, when it believes a collective engagement will lead to a higher quality and/or a better response from the investee company. The AIF may approach, or may be approached by, other Asset Managers, including insurers, AIFs, or other type of shareholders to provide a joint representation to the investee companies to address specific concerns.

- b) The AIF may also, where permitted, collaborate with other *institutional investors, professional associations such as [Indian Association of Alternative Investment Funds, General Insurance Council of India, Life Insurance Council, General Insurers' Public Sector Association, IiAS and/or other proxy / voting advisory firms]*; regulators such as SEBI, Pension Fund Regulatory and Development Authority, IRDA, and other policy makers to solicit views.
- 4.5. The AIF shall determine individually its position on any issue requiring collaborative engagement and shall not act or be construed as acting as a 'person acting in concert' with other shareholders and market manipulation.
- 4.6. As and when required, the AIF may periodically review and measure the effectiveness of their intervention, collaboration activities and its outcomes and take suitable steps. It may decide to communicate the same to investors on case by case basis and on request.

## 5. Voting and disclosure of voting activity

### 5.1. Applicability

The AIF may generally vote on all shareholder resolutions of top 30 listed investee companies in the AIF, arranged in the descending order of their investment value with the highest investment value on the top, if the investment value in any of these investee company exceeds Rs. 10 Crores and the AIF's holding is greater than 1% of the investee company's paid-up share capital and the investee company is not earmarked for divestment. In such cases, the AIF shall make informed and independent voting decisions, applying due care, diligence and judgment across their entire portfolio in the interests of its shareholders/ investors.

### 5.2. Voting decisions shall be made in accordance with the AIF's voting policy & process, which is available here:

#### A. Mechanisms to be used for voting: e-voting

#### B. Internal mechanisms for voting:

- a. AIF proposes to use proxy advisors like IiAS, to seek independent analysis and opinion on proposed shareholder resolutions.
- b. Along with IiAS voting recommendations, AIF would leverage expertise of its investment / research team members to decide vote for / against / abstain.
- c. In case of conflict of interest or specific situations, it may be escalated to DOA to decide the vote.

#### C. Disclosure of voting including:

- a. Periodicity of disclosure – Annually and / or on Request
- b. Summary of actual voting for proposed resolutions in investee companies i.e. For, Against or Abstain, may be disclosed to concerned parties on annually on the Malabar website or to the concerned parties on request without disclosing name of the investee companies
- c. Rationale for voting – IiAS recommendation to be saved with or without internal AIF notes.

#### D. Details of service provider: Institutional Investor Advisory Services ("IiAS")

- a. IiAS is a SEBI registered research entity (proxy advisor registration number: INH000000024) dedicated to providing participants in the Indian market with independent opinions, research and data on corporate

governance issues as well as voting recommendations on shareholder resolutions of over 750+ listed Indian companies.

- b. IiAS' voting recommendations are based on a set of guiding principles, which incorporate the basic tenets of the legal framework along with the best practices followed by some of the better governed companies. These policies clearly list out the rationale and evaluation parameters which are taken into consideration while finalizing the recommendations. The detailed IiAS Voting Guidelines are available at IiAS website. The draft report prepared by the analyst is referred to an internal Review and Oversight Committee (ROC), which is responsible for ensuring consistency in voting recommendations, alignment of recommendations to the IiAS' voting criteria and setting and maintaining quality standards of IiAS' proxy reports. Details regarding the functioning and composition of the ROC committee are available at <https://www.iiasadvisory.com/about>. In undertaking its activities, IiAS relies on information available in the public domain i.e. information that is available to public shareholders. However, in order to provide a more meaningful analysis, IiAS, generally seeks clarifications from the subject company. IiAS reserves the right to share the information provided by the subject company in its reports. Further details on IiAS policy on communication with subject companies are available at <https://www.iiasadvisory.com/about>.
- c. Considering the credibility and experience of founders of IiAS, its necessary infrastructure to evaluate proposed resolutions independently, AIF may give relatively high weightage to IiAS recommendations.

5.3. The AIF shall also consider several factors, including recommendations made by IiAS and / or other proxy / voting advisory firms, while voting (if any). If required and endorsed by DOA, the AIF may vote against resolutions which are not in its investors'/shareholders'/clients' best interests or perceived to be not in the interest of investors'/shareholders'/clients' best interests / AIF as an industry / ESG policy of Malabar.

5.4. Attendance at General Meetings: The AIF may attend general meetings of the investee companies (annual as well as any extra ordinary shareholders' meetings) where appropriate and practically possible, and to the extent possible, physically or otherwise, actively speak and respond to the matters being discussed at such meetings.

- 5.5. The AIF, to the best of its ability, may record and disclose specific rationale supporting its voting decision (for, against or abstain) with respect to each vote proposal including how potential conflicts of interests, if any, are addressed in the exercise of voting rights.
- 5.6. The AIF may disclose all voting activity and a detailed report on voting annually on Malabar Website or to the concerned parties on request without disclosing names of investee companies.

## **6. Reporting of Stewardship Activities**

- 6.1. The AIF shall issue a report to its shareholders/ investors detailing the compliances or non-compliance (with justification of any non-compliance) with each of the Stewardship Principles and the requirements set out in this Stewardship Code, including how conflicts were managed (if any), extent of monitoring of investee companies, any intervention undertaken, collaboration undertaken and cumulative voting activity and outcome of each of these actions, for the last financial year within [●] working days of the ending of the year. The report shall be made public and made available to on the AIF's website.
- 6.2. The AIF shall also on an annual basis report its compliance status with the Stewardship Principles in an easy to read format and share such reports in the annual intimation made to its shareholders/ investors.
- 6.3. The AIF should maintain records of meetings, voting and engagement to documents summaries of stewardship activities for the benefit of its shareholders/ investors.

## Annex: SEBI's Stewardship Principles for AIFs

---

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

---

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.

Every institutional investor should formulate a comprehensive policy on how it intends to fulfill the aforesaid stewardship responsibilities and disclose it publicly. In case any of the activities are outsourced, the policy should provide for the mechanism to ensure that in such cases, stewardship responsibilities are exercised properly and diligently.

The policy should be reviewed and updated periodically and the updated policy should be publicly disclosed on the entity's website. A training policy for personnel involved on implementation of the principles is crucial and may form a part of the policy.

---

**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**

---

As a part of the aforesaid comprehensive policy, institutional investors should formulate a detailed policy for identifying and managing conflicts of interest. The policy shall be intended to ensure that the interest of the client/beneficiary is placed before the interest of the entity. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

The conflict of interest policy formulated shall, among other aspects, address the following:

1. Identifying possible situations where conflict of interest may arise. E.g. in case of investee companies being associates of the entity.
2. Procedures put in place by the entity in case such conflict of interest situations arise which may, inter alia, include:
  - a. Blanket bans on investments in certain cases
  - b. Having a 'Conflict of Interest' Committee to which such matters may be referred to.
  - c. Clear segregation of voting function and client relations/ sales functions.
  - d. Policy for persons to recuse from decision making in case of the person having any actual/ potential conflict of interest in the transaction.

- e. Maintenance of records of minutes of decisions taken to address such conflicts.
3. Periodical review and update of such policy and public disclosure.

---

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

---

As a part of the aforesaid comprehensive policy, institutional investors should have a policy on continuous monitoring of their investee companies in respect of all aspects they consider important which shall include performance of the companies, corporate governance, strategy, risks etc.

The investors should identify the levels of monitoring for different investee companies, areas for monitoring, mechanism for monitoring etc. The investors may also specifically identify situations where they do not wish to be actively involved with the investee companies e.g. in case of small investments.

The investors should also keep in mind regulations on insider trading while seeking information from the investee companies for the purpose of monitoring.

Accordingly, the institutional investors shall formulate a policy on monitoring specifying, inter-alia, the following:

1. Different levels of monitoring in different investee companies. E.g. companies where larger investments are made may involve higher levels of monitoring vis-à-vis companies where amount invested is insignificant from the point of view of its assets under management.
2. Areas of monitoring which shall, inter-alia, include:
  - b. Company strategy and performance - operational, financial etc.
  - c. Industry-level monitoring and possible impact on the investee companies.
  - d. Quality of company management, board, leadership etc.
  - e. Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
  - f. Risks, including Environmental, Social and Governance (ESG) risks
  - g. Shareholder rights, their grievances etc.
3. Identification of situations which may trigger communication of insider information and the procedures adopted to ensure insider trading regulations are complied with in such cases

---

**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.**

---

Institutional investors should have a clear policy identifying the circumstances for active intervention in the investee companies and the manner of such intervention. The policy should also involve regular assessment of the outcomes of such intervention. Intervention should be considered even when a passive investment policy is followed or if the volume of investment is low, if the circumstances so demand.

Circumstances for intervention may, inter alia, include poor financial performance of the company, corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigation etc.

The mechanisms for intervention may include meetings/discussions with the management for constructive resolution of the issue and in case of escalation thereof, meetings with the boards, collaboration with other investors, voting against decisions, etc. Various levels of intervention and circumstances in which escalation is required may be identified and disclosed. This may also include interaction with the companies through institutional investor associations (E.g. AMFI). A committee may also be formed to consider which mechanism to be opted, escalation of matters, etc. in specific cases.

---

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

---

To protect and enhance wealth of the clients/ beneficiaries and to improve governance of the investee companies, it is critical that the institutional investors take their own voting decisions in the investee company after in-depth analysis rather than blindly supporting the management decisions.

This requires a comprehensive voting policy to be framed by the institutional investors including details of mechanisms of voting, circumstances in which voting should be for/against/abstain, disclosure of voting, etc. The voting policy, voting decisions (including rationale for decision), use of proxy voting/voting advisory services, etc. should be publicly disclosed.

The voting policy shall, inter-alia, include the following:

- A. Mechanisms to be used for voting (e.g. e-voting, physically attending meetings, voting through proxy, etc.)
- B. 2. Internal mechanisms for voting including:
  - d. Guidelines on how to assess the proposals and take decision thereon
  - e. Guidelines on how to vote on certain specific matters/ circumstances including list of such possible matters/circumstances and factors to be considered for a decision to vote for/ against/ abstain
  - f. Formulation of oversight committee as an escalation mechanism in certain cases
  - g. Use of proxy advisors
  - h. Policy for conflict of interest issues in the context of voting
- C. Disclosure of voting including:
  - d. Periodicity of disclosure
  - e. Details of actual voting for every proposed resolution in investee companies i.e. For, Against or Abstain
  - f. Rationale for voting
  - g. Manner of disclosure – e.g. in annual report to investors, quarterly basis on website etc.
- D. In case of use of proxy voting or other voting advisory services, disclosures on:
  - d. Scope of such services

- e. Details of service providers
- f. Extent to which the investors rely upon/use recommendations made by such services

---

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

---

Institutional investors shall report to their clients/ beneficiaries periodically on how they have fulfilled their stewardship responsibilities as per their policy in an easy-to-understand format.

However, it may be noted that the compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision of the institutional investor to sell a holding when it is in the best interest of clients or beneficiaries.

Institutional investors shall report periodically on their stewardship activities in the following manner:

1. A report may be placed on website on implementation of every principle. Different principles may also be disclosed with different periodicities. E.g. Voting may be disclosed on quarterly basis while implementation of conflict of interest policy may be disclosed on an annual basis. Any updation of policy may be disclosed as and when done.
2. The report may also be sent as a part of annual intimation to its clients/ beneficiaries.

