NAVI AMC Limited

Stewardship Code

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1. Introduction

SEBI vide its circular no. CIR/CFD/CMD1/ 168 /2019 dated December 24, 2019 has mandated Mutual Funds to follow the Stewardship Code in relation to their investment in listed equities effective April 1, 2020.

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

2. Primary Stewardship Responsibilities.

2.1 NAVI AMC Limited (AMC) shall:

a) take into consideration, in the investment process, investee companies' policies and practices on performance (operational, financial, etc.);

b) take into consideration, in the investment process, investee companies' policies and practices on material environmental, social and governance matters, opportunities or risks, capital structure, etc

c) take into account the strategy, corporate governance practices (including board structure, remuneration, etc.) of investee companies, when undertaking buy and sell decisions

c) enhance shareholder/investor value through productive engagement with investee companies

d) vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors

e) influence the development of corporate governance standards and corporate responsibility

f) be accountable to shareholders/investors within the parameters of professional confidentiality and regulatory regime

g) maintain transparency in reporting its voting decisions and other forms of engagement with investee companies.

2.2 Discharge of Stewardship Responsibilities:

The AMC shall discharge its stewardship responsibilities through:

a) voting on shareholders' resolutions, with a view to enhance value creation for the shareholders/investors and the investee companies

b) advocating for responsible corporate governance practices, as a driver of value creation and

c) intervening on material environmental, social and governance opportunities or risks in the AMC's investee companies.

d) Having detailed discussions with management, interaction with investee company boards,

2.3. Responsibility for oversight of the stewardship activities:

The Board of the AMC shall ensure that there is an effective oversight of the stewardship activities. The policy shall be reviewed and updated periodically.

2.4. Disclosure of Stewardship Code:

This Stewardship Code and amendment thereto, shall be disclosed on the website of the AMC. Any amendment or modification to this Stewardship Code shall be disclosed on the website.

2.5 Training Module

A training policy for personnel involved on implementation of the principles is crucial and may form a part of the policy is given in the Annexure: 1

3. Managing Conflict of Interest

3.1. 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 AMC (including its employee, officer or director) conflict with the interests or benefits of its shareholder/investor or the investee company.

3.2. Avoid conflict of interest: The employees, officers and directors of the AMC 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 Board.

3.3. Identifying conflict of interest: While dealing with investee companies, the AMC may be faced with a conflict of interest, inter alia, in the following instances, where:

a) The AMC and the investee company are part of same group; or

b) The AMC is a lender to the investee company;

c) The investee company is partner or holds an interest, in the overall business or is a distributor for the AMC's group;

d) Any of the group companies or affiliates of the AMC is a supplier or partner of the investee company;

e) A nominee of the AMC has been appointed as a director or a key managerial person of the investee company;

f) A director or a key managerial person of the AMC has a personal interest in the investee company;

g) The AMC (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.

3.4 Procedures shall be put in place by the AMC 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 of CEO, CIO, Fund manager, Research Analysts, Risk Manager & Compliance Officer to which such matters may be referred to.

c. Clear segregation of voting functions 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.

3.5 Manner of managing conflict of interest:

a) Holdings of Designated Employees of the AMC covered under Employee Personal Securities Trading Dealing policy would be maintained by Compliance.

b) A potential conflict of interest in relation to an investee company shall be reasonably highlighted in the internal compliance system.

c) Employees, officers and directors of the AMC will record their outside appointments/professional engagement with the Compliance.

d) Save as in the ordinary course of business, the members of the Board shall not engage with the investee companies outside the scope of their duties under the Stewardship Code.

e) The AMC may consider abstaining from voting when the AMC and the investee company are part of the same group, unless the AMC records rationale for voting on such resolutions.

f) Business level conflicts shall be resolved on a case to case basis by the Committee, after factoring the relevant considerations.

4. Monitoring of Investee Companies

4.1. The AMC shall monitor all investee companies.

4.2. Manner of Monitoring:

a) The Board shall be responsible for monitoring of the investee companies' business strategy, performance, risk, capital structure, remuneration, corporate governance performance, cultural, social and environmental matters.

b) The AMC may use publicly available information, sell side research and industry information and wherever possible shall engage with the investee companies' through investor analyst calls or analyst meet at least once in a year, to monitor the investee companies.

c) Wherever possible the AMC shall meet the management teams / key managerial personnel of the investee company on a yearly basis and actively participate in investor meetings and general meetings held by the investee company, through webcast, conference call or other mechanism when possible, which will provide for higher participant/engagement.

4.3 The AMC shall not wish to be actively involved with the investee companies e.g. in case of small investments.

4.4 The process of 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 the amount invested is insignificant from the point of view of its assets under management.

2. Areas of monitoring which shall, inter-alia, include:

a. Company strategy and performance - operational, financial etc.

b. Industry-level monitoring and possible impact on the investee companies.

c. Quality of company management, board, leadership etc.

d. Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.

e. Risks, including Environmental, Social and Governance (ESG) risks

f. 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.

5. Active Intervention in the Investee Company

5.1. Applicability

a) The AMC shall intervene in the acts/omissions of an investee company, in which it has invested Rs. 10 crores and holds at least 2% of the share capital of the investee company.

b) The AMC shall 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 insufficient disclosures, inequitable treatment of shareholders, non-compliance with regulations, performance parameters, governance issues, related party transactions, corporate plans/ strategy, CSR and environment, or any other related matters.

5.2. Intervention by the AMC: The decision for intervention shall be decided by the Board based on the following broad parameters:

a) The AMC shall not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment.

b) The AMC may consider intervening in matters below the thresholds, if in the reasonable opinion of the Board, the issue involved may adversely impact the overall corporate governance atmosphere, remuneration, strategy, ESG risks, leadership issues, litigation or the AMC's investment.

5.3. The AMC's intervention and escalation policy is as follows:

a) Engagement: The AMC shall take all reasonable steps to engage with the investee company's management to resolve any concerns of the AMC including steps to be taken to mitigate such concerns.

b) Re-engagement: In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by the AMC within a reasonable timeframe, The

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

c) Escalation: In case there is no progress despite the first two steps, the AMC shall escalate the matter to the Board. If the Board decides to escalate, the AMC shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. the AMC may also consider discussing the issues at the general meeting of the investee company (either called by the investee company or requisitioned by the AMC).

d) Reporting to the Regulators: If there is no response or action taken by the investee company despite the first three steps. the AMC may approach the relevant authorities.

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

Collaboration with other Institutional Investors:

5.4. The AMC shall consider collective engagement with other shareholders 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 AMC may approach, or may be approached by, other Asset Managers, including insurers, mutual funds, or other type of shareholders to provide a joint representation to the investee companies to address specific concerns.

5.5. The AMC shall also, where permitted, collaborate with other shareholders, professional associations and/or regulators such as AMFI, Pension Fund Regulatory and Development Authority, SEBI, IRDA and other policy makers to solicit views.

5.6. An illustrative list of matters which require collaborative engagement may include appointment or removal of directors, executive remuneration, change in the nature of business, mergers and acquisitions, divestment, matters dealing with inequitable treatment of the shareholders, and related party transactions.

6. Voting and disclosure of voting activity

6.1 The AMC shall exercise their voting rights and vote on all shareholder resolutions of all investee companies.

6.2 Voting decisions shall be made in accordance with the AMC's voting policy.

6.3 The AMC shall also consider several factors, including recommendations made by Institutional Investor Advisory Services and/or other proxy advisory firms, while voting (if any). TheAMC shall vote against resolutions which, a) are not consistent with the AMC's voting policy, or b) which are not in its investors'/shareholders'/clients' best interests.

6.4 Attendance at General Meetings: The AMC shall attend general meetings of the investee companies (annual as well as any extra ordinary shareholders' meetings) where appropriate, and to the extent possible, actively speak and respond to the matters being discussed at such meetings.

6.5 The AMC shall be required to record and disclose voting decisions (for, against or abstain) with respect to each vote proposal. The AMC shall disclose all voting activity on a quarterly basis on the website. The AMC shall also disclose if it has relied (either partly or fully) on the voting recommendations provided by IiAS and or any other proxy advisory firm.

6.6 The AMC shall formulate an "Oversight committee" as an escalation mechanism in certain cases. There could be a situation that there could be internal conflict on the voting of the resolution. The cases where the conflict arises would be referred to the Investment Committee (IC) as an escalation mechanism. Since, the IC committee consists of Chief Executive officer, Chief Investment Officer, Fund Managers, Risk Manager, it is a suitable forum for the escalation mechanism.

The details of proxy advisory firm (IIAS):

- Scope of such services :

  Institutional Investors Advisory Services (IiAS) is a SEBI registered proxy advisory firm. The company provides voting recommendations on shareholders resolutions for more than 650 corporates including Nifty, BSE 200, Nifty 200, Nifty Midcap 50, F&O stocks & companies in which institutional shareholding is above 30%. Before finalizing the recommendations, IiAS conducts an in-depth analysis in all critical governance matrices. The IiAS analytical team is well versed with nuances of local market laws & regulations. IiAS is independent. IiAS do not provide consulting services to the companies they cover.

- Details of service providers :

  IiAS was established in 2010. IiAS has been at the forefront of driving the corporate governance agenda in the Indian capital market. IiAS independent research, voting recommendation and thought leadership in the areas of stewardship and sustainability have helped and shaped the Governance debate and the engagement framework between corporates and their stakeholders.

- Extent to which the investors rely upon/use recommendations made by such services

  Our Fund House's investment team normally take a view on IiAS's opinion. Investment team also know the quality of Management of Corporates where we do the voting. Since IiAS is a professional, independent research firm , their recommendation plays a role in our Fund house's final voting.

7. Reporting of Stewardship Activities

7.1. The AMC shall also report its compliance status with the Stewardship Principles as follows on its website:-

a) Proxy Voting to be disclosed on a quarterly basis on the website & in annual report of MF

b) Conflict of Interest policy to be disclosed on an annual basis

c) Any update in policy as and when done.

Annexure: 1

TRAINING PROGRAM

Following information would help new joiners of the Investment team to understand in-depth on the Stewardship Policy.

1.Stewardship Policy

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

2. Responsibility for oversight of the stewardship activities:

The Board of The AMC shall ensure that there is an effective oversight of the stewardship activities. The policy should be reviewed and updated periodically.

3. Disclosure of Stewardship Code:

This Stewardship Code and amendment thereto, shall be disclosed on the website of The AMC. Any amendment or modification to this Stewardship Code shall be disclosed on the website.

4. Disclosure of Stewardship Activities:

The AMC shall also disclose the requisite compliance and non-compliance with the Stewardship Code and Stewardship Principles.

5. Managing Conflict of Interest:

a. 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 AMC (including its employee, officer or director) conflict with the interests or benefits of its shareholder/investor or the investee company.

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b) The AMC shall also, where permitted, collaborate with other shareholders, professional associations and/or regulators such as AMFI, Pension Fund Regulatory and Development Authority, SEBI, IRDA and other policy makers to solicit views.

c) An illustrative list of matters which require collaborative engagement may include appointment or removal of directors, executive remuneration, change in the nature of business, mergers and acquisitions, divestment, matters dealing with inequitable treatment of the shareholders, and related party transactions.

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