

# BAJAJ FINSERV ASSET MANAGEMENT LIMITED

Stewardship Code

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## **1. Background and purpose**

Bajaj Finserv Asset Management Limited (BFSAML/ Investment Manager/ The Company) acts as the Investment Manager to Bajaj Finserv Mutual Fund (BFSMF/ Mutual Fund) and Bajaj Finserv Mutual Fund Trustee Limited (BFSTL) is the Trustee to BFSMF. The Company in its capacity as the Investment Manager to the schemes of the Mutual Fund, invests in equity securities issued by companies (Investee Companies). SEBI vide its circular No. CIR/CFD/CMDI/168/2019 dated December 24, 2019 read with SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/55 dated March 30, 2020 (“SEBI Circular(s)”) has mandated all Mutual Funds to follow the Stewardship Code in relations to the schemes’ investments in listed equities of the investee companies.

As a part of this activity, the investment team monitors these investee companies and engages with the investee companies on issues including strategy, business performance, corporate governance, risks and opportunities on ESG (Environmental, Social, and Governance) front and other related matters in order that the best interest of its unit holders of the various schemes floated by the Mutual fund is protected. The investment team also exercises the voting rights attached on these companies on behalf of the Unit holders of the schemes of the Fund in accordance with its ‘Voting policy and Procedures’.

The Code is prepared based on the principles enumerated in the said SEBI circular(s). The Code shall act as guidance to the Investment team for discharging the stewardship responsibility, however, this code is not intended to curtail / restrict the fund management activities of the BFSAML. The Investment team shall always be at liberty to decide their dealing strategies, keeping in mind the investment objectives of the scheme, though the same may conflict with the principles specified in the Code. This Stewardship Code shall be read in conjunction with the Voting Policy and procedures of the Mutual Fund.

## **2. Philosophy of Stewardship Code**

Stewardship aims to promote the long-term sustainability and success of investee companies in such a way that the investors (unit holders) participate and benefit from the same. Effective stewardship can benefit investee companies, unit holders as well as the investment manager. This document sets out the key principles and the policies to be followed by the Equity investment team of BFSAML (hereinafter referred as “Investment Team”) regarding the monitoring of these companies by having engagement with the management, voting on shareholder resolutions and disclosures relating to such investee companies thereto. This code will be referred to as the 'Stewardship Code' for the Mutual Fund.

**3. Key Principles adopted in Code**

**Principle 1: How do we discharge our stewardship responsibility?**

The Code is approved by Board of Directors of BFSAML and the BFSTL and shall be effective from the April 19, 2023. The Board has authorized the Investment Committee (the “Committee”) for discharging the Stewardship obligations and to carry out any changes in the Code followed by approval of such change(s) by the Boards of BFSAML and BFSTL.

The Committee will set a threshold level primarily based on the “materiality” of the issue and the size of our exposure to the individual investee company, beyond which the exposure to the investee company will be deemed to be ‘meaningful’. The threshold level will help in determining the level of engagement, monitoring and intervention with the investee company. The Committee is empowered to modify the meaningful threshold level, as it deems appropriate.

The Committee is also entrusted with the power to engage or use the services of any external service providers to support the Committee / Investment team in discharging its stewardship responsibilities. In case the Committee engages an external agency, scope of its services that it proposes to avail will be specified along with the mechanism to ensure that in such case, stewardship responsibilities are exercised properly and diligently. The Committee may use its discretion to rely and/or act on the suggestions/recommendations given by such external service provider(s).

The Investment team will be guided by the principles provided in the Code, however if there is conflict between discharge of the stewardship responsibilities and the Investment team’s normal fund management activity, the Investment team shall always ensure that they act in the interest of the investors. The investment team will seek guidance and approvals from the Committee with respect to the engagement and intervention with the investee companies.

A training program shall be formulated for training of Investment team and Committee, explaining the responsibility under the Code along with amendments, if any. This may be done through external agency or internal team presentations. The Committee is empowered to decide or amend the frequency and modalities of training under this Code.

**Principle 2: Managing Conflicts of Interest**

BFSAML is part of a large and diversified financial services group with many affiliates and related companies. From time to time, we may face conflicts of interest in relation to our stewardship responsibilities. However, our approach will be to always to keep in mind interest of our investors uppermost. The voting for investee companies’ resolutions may entail some instances of conflict of

interest between the interests of shareholders of BFSAML and the unitholders' interests. A conflict of interest may be actual, potential or perceived and may be financial or non-financial. As a rule, in all cases of conflicts of interests, the decisions of BFSAML will be based on the best interests of the unitholders of mutual fund schemes of Bajaj Finserv Mutual Fund.

Potential conflicts of interest may arise in certain situations, such as:

- a. The Investee Company is a client of Investment Manager and/or its affiliates;
- b. In certain cases, wherein any affiliates of the Investment Manager are lender to the Investee Company;
- c. The Investee Company is a seller whose products or services are important to the business of Investment Manager and/or its affiliates;
- d. The Investee Company is an entity participating in the distribution of investment products advised or administered by the Investment Manager and/or any of its affiliates;
- e. BFSAML and Investee Company are part of the same group or are associates;
- f. The investee company is partner or holds an interest, in the overall business of BFSAML group;
- g. A director or a key managerial person of BFSAML has a personal interest in the investee company.

BFSAML will make its best efforts to avoid such conflicts and ensure that any conflicts of interest are resolved in the best interests of unit holders.

To avoid conflict of interest, following procedures shall be ensured:

- a. The voting decision will be guided by the approved voting policy, which is published on our website at [www.bajajamc.com](http://www.bajajamc.com).
- b. There is a clear segregation of voting function and sales function / client relations.
- c. Investment team will be responsible for voting on resolutions and will be guided by the voting policy for all resolutions.
- d. The situation wherein the conflict of interest is not covered by the voting policy, such matters shall be referred to the Investment Committee for consultation and shall be dealt in accordance with the guidance provided by the Investment Committee.
- e. Policy for persons to recuse from decision making in case of the person having any actual/potential conflict of interest in the transaction.
- f. Maintenance of records of minutes of decisions taken to address such conflicts.
- g. Periodical review and update of policy and public disclosures.

**Principle 3: Monitoring of Investee Companies**

The Investment Team of BFSAML will be responsible for monitoring the investee companies and for engaging with the managements of the investee companies. However, level and degree of monitoring / engagement may vary depending upon the materiality of investments.

- a. Investment Committee, in consultation with Investment team, may identify situations where active engagement with the investee companies may not be necessitated especially where investment is insignificant, etc.
- b. In case of the investee companies where larger investments are made, higher levels of monitoring may be involved
- c. Investment team will be responsible for laying down the process for monitoring of the investee companies. Such monitoring process will lay down criteria inter-alia, various levels for monitoring of the investee companies, areas to be monitored like financial performance, management evaluation, business outlook, corporate governance issues, capital structure, industry level changes, and key risk areas. Monitoring on areas like Board composition, appointment of Director(s), succession planning, remunerations, risk related to social & environmental/ ESG issues, shareholder rights & grievances being more of sensitive nature would be monitored on a best effort basis. In case, any material risk is identified during the course of monitoring, the future course of action will be governed by the Principle 4 laid in this code.
- d. The Investment team as part of its monitoring process may use publicly available information i.e., corporate disclosures on the exchanges viz. quarterly results, annual reports, corporate announcements etc. It may also engage with the management of the investee companies on periodic basis. Further, it can also review the sell side research and industry information, etc.
- e. While dealing with the investee company, the Investment team shall ensure strict compliance with the requirements laid down under SEBI (Prohibition on Insider Trading) Regulations, 2015, as amended from time to time.

#### **Principle 4: Active intervention in the Investee companies**

As a part of the monitoring process, concerns may require intervention by BFSAML, if Investment team feels that such intervention is required to protect value of its investments from time to time mainly arising out of insufficient disclosures, non-compliance to regulations, performance parameters, governance issues, corporate plans/ strategy, Corporate Social Responsibility (CSR) and environment & society related matters for discharging its stewardship responsibility.

In certain cases, especially if the investment is beyond the meaningful threshold, the Investment team may deem it necessary to escalate the engagement/intervention on such issue. The tactical aspects of the intervention will be determined on a case-to-case basis by the Investment team and referred to the Committee for advice and guidance. The Committee may determine the level of intervention to ensure that the views of the BFSAML are represented.

In cases where the investment is already earmarked for divestment or post the planned divestment, actual holding will be below threshold levels, intervention may not be considered, unless there are other factors

which warrants intervention. Key consideration in arriving at any such decision will be given to materiality; the seriousness of the issue at hand and/or implications where the corporate governance action by any investee company has potential for being replicated by other companies.

Any intervention in affairs of a public limited company by an investor carries a potential risk of such intervention being defined as either public information or unpublished price sensitive information. In any such case of intervention and engagement with the investee company, all communications and discussions are to be conducted in private and confidential manner. Due care shall be taken to ensure that such intervention shall be restricted solely to public information. The action to be undertaken in such cases of intervention involves:

**Step 1: Interaction**

In case of instances identified for intervention, BFSAML as an active shareholder will endeavour to engage with the company's management to discuss the concerns, apprehensions and actions to mitigate these concerns. The interactions will be held with the company personnel authorised and empowered to act on the areas of concerns.

In case, where the concerned management of the investee company is not accessible for more than a reasonable period despite requests / reminder, then BFSAML may consider to escalating the matter as per the process laid under Step 3.

**Step 2: Reiteration**

In absence of any response or lack of satisfactory response from the management on the concerns raised or there is any lack of follow-up action as promised despite the passage of a reasonable period, BFSAML may re-initiate the engagement process with the management of such investee companies to reiterate the conclusions or the plans of action decided at the prior meetings.

Focus will be on getting a time bound plan to rectify or re-align the business practices or suitable actions should be discussed and agreed upon.

**Step 3: Escalation**

For instances where the interaction and re-iteration does not lead to any progress, the matter will be discussed at the Committee for further escalation to the Board of Directors of the investee company. If the Committee decides to escalate, then the communication to the Board of the investee company will elaborate the concerns, enumerating inter-alia the past requests for engagement with the management of the company, the past discussions and the agreed course of actions, etc.

The Investment team shall decide about the direct engagement with the investee company, the approach

it shall adopt either for highlighting the routine matters or for carrying out research related activities or for matters detailed under Steps 1 & 2.

In all cases of engagement/interventions with the management and / or the Board of Directors of the investee company, all communications and discussions are to be conducted in private and confidential manner. The objective of the interactions is to play a constructive role in enhancing the value of the investment in the equity of the investee companies to benefit the unitholders of schemes managed by BFSAML.

**Step 4: Collaboration with other investors**

BFSAML may choose to engage with the investee company in collaboration / consultation with the other institutional investors, whose interests are aligned with BFSAML, in order to have a wider group of investors representing a larger proportion of shareholders to engage with the investee company. BFSAML may also choose to involve industry associations, forums or other investors to engage with the investee company, if it deems it appropriate. Collaborative approach is useful to collectively convey public interest and also quicken the response of investee company. In such instances, we may willingly initiate action or support other investors' actions

In opting for collaborative route, BFSAML may either be acting as lead among other investors or may need to authorise some other institution or committee to act as lead in direct engagement with the investee company. In taking collaborative action, we would be cognizant of applicable legal and regulatory requirements including on market abuse, insider dealing, etc.

**Step 5: Reporting**

The primary objective of the intervention through engagement with investee company is to play a constructive role in enhancing the value of the investments for the unit holders of the schemes. Hence, reporting of such engagement is not required. However, the Investment Committee may decide to report to the relevant regulatory authority or any Government body regarding the issue if the Committee feels the need for the same in interest of public policy or laws.

**Principle 5: Voting and disclosure of voting activity**

The Investment team shall follow the guidelines for voting on the resolutions of the investee companies as specified in the 'Voting Policy and Procedures'.

**Principle 6: Reporting and Disclosures**

A Report on implementation of Stewardship Activities including how the conflicts of the interest (if any) were managed, along with the Annual Report of Schemes of the Fund will be placed on the website of the Company after the end of the Financial Year.



Disclosures on the votes cast by BFSAML for all the resolutions put forth by the investee companies for shareholders' approval will be published on quarterly basis, as required by prevailing SEBI guidelines.

The Company in addition to the disclosure on its website as specified above shall also circulate to unitholders a status report for every financial year, as part of annual intimation to the investors. The report shall *inter alia* include details indicating the compliance/ any variances with the principles laid down in this Code. The format and content of the status report shall be decided by the Committee.

The Committee may decide to report to the relevant regulatory authority or any Government body regarding the issue if the Committee feels the need for the same in interest of public policy or laws.

**4. Review and control**

The Committee will be responsible for reviewing the code every year and / or whenever any changes are to be incorporated in the Code due to any amendment in the guidelines by SEBI for mutual funds in India or as may be felt appropriate by the Committee and recommend the same for approval/ratification of the Boards of BFSAML and BFSTL.

The Stewardship policy shall be reviewed periodically by the Board of BFSAML and BFSTL.

**5. Amendment**

In this policy, any reference to any provision of law, regulations or circulars would be deemed to include a reference to every modification(s), amendment(s) and replacement(s) from time to time with effect from the time at which such changes are given effect to.

This Code, as amended from time to time, will be disclosed on the website of Mutual Fund along with other public disclosures. Any change or modification to the Code will also be disclosed at the time of updating the code on the website.