

Stewardship Policy –Kotak Mahindra Pension Fund Ltd

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KOTAK MAHINDRA PENSION FUND LIMITED

Stewardship Policy

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Notice to the Reader

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Preamble and scope of policy on Stewardship Responsibilities:

The Policy is framed to discharge Stewardship responsibilities in accordance with the guidelines set out by Pension Fund Regulatory and Development Authority (PFRDA) vide its circular ref PFRDA/2018/01/PF/1 dated May 04, 2018. Kotak Mahindra Pension Fund Ltd (KMPFL) is a pension fund registered with PFRDA to manage the pension contributions made by the subscribers under National Pension System. As a part of this activity, the investment management team is expected to monitor and engage with the investee company on 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. and any other issues such that the interest of the subscribers are protected.

This policy will be referred to as Stewardship Policy to include responsibilities to be undertaken by the Company and the processes that the company intends to follow in order to safeguard the interest of the subscribers.

Effective Date:

This policy will be effective from the date of its approval by the Board and would be reviewed and updated on an annual basis or as and when there are regulatory changes. Any material changes in the policy will also be approved by the Investment Committee. The Investment Committee shall recommend the changes in the policy to the Board.

Stewardship Principles:

In an endeavor to safeguard the interest of the subscribers, the Company shall work towards fulfilling the objectives of the below listed principles:

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

a. Primary Stewardship Responsibilities:

The primary Stewardship responsibilities of KMPFL shall be:

- i) Include monitoring and actively engaging with investee companies for threshold of large investments (currently where it holds more than 2% of the paid up share capital of an investee company and has suffered a reasonable decline in value) 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.

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- ii) To vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
- iii) To maintain transparency in reporting its voting decisions and other forms of engagement with investee companies

b. Discharge of Stewardship responsibilities:

The Company shall fulfill its stewardship responsibilities by way of below activities:

1. The Company shall continue to follow the voting policy formulated pursuant to the circular of PFRDA – PFRDA2017/17/PF/1 dated April 20, 2017 issued by PFRDA and any modifications/amendments thereto (Voting Policy) to deal with the exercise of the Company's voting rights in Investee companies and shall disclose voting report periodically.
2. The Company shall appropriately monitor and engage on an issue which may potentially, affect an investee company's ability to deliver long term sustainable performance and value for threshold of large investments (currently where it holds more than 2% of the paid up share capital of an investee company and has suffered a reasonable decline in value).
3. The Company shall endeavor to work collectively with other institutional investors and support collaborative engagements organized by representative bodies and others for threshold of large investments (currently where it holds more than 2% of the paid up share capital of an investee company and has suffered a reasonable decline in value).
4. The company shall disclose compliance to the Policy and the principles therein on its website on an annual basis.

c. Oversight of the Stewardship activities:

The Investment Committee of KMPFL shall ensure that there is an effective oversight of the Company's stewardship activities. The Investment Committee shall be responsible for the overall implementation and execution of this Policy. The threshold of investment in the investee company beyond which the Company shall perform its stewardship activities shall be prescribed by the Investment Committee. The investee company used in this policy shall mean Investee companies in which Company has made equity investments. The Investment Committee shall recommend the changes in the policy to the Board.

d. Disclosure of Stewardship Code:

This Stewardship policy and amendment thereto, shall be disclosed on the website of KMPFL

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

Managing Conflict of Interest:

a. Term – Conflict of interest

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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 activity.

b. Avoiding Conflict of Interest

The Company 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, the Investment Committee may be consulted.

c. Identifying Conflict of interest

While dealing with investee companies, the Company may be faced with a conflict of interest. Given below are a few instances where conflict of interest may arise:

1. The Company and the investee company are part of same promoter group;
2. The Company is partner or holds an interest, in the overall business of KMPFL
3. Any employee or the nominee of the Company has been appointed as a director or a key managerial person of the investee company; or
4. Directors / Promoters /Officials of Investment department/ Members of Investment Committee has a personal interest in the investee company;

d. Manner of managing conflict of interest:

To manage the above conflicts of interest, the Company shall ensure that:

1. A conflict of interest in relation to an investee company shall be highlighted to the Investment Company and get recorded.
2. The employees shall comply with code of conduct for prevention of Insider trading in compliance with SEBI (Prohibition of Insider Trading) Regulations.
3. Rationale for voting on each shareholder resolution shall be recorded by the Company.
4. The company shall follow the Voting Policy when the investee company is part of same promoter group. The Company shall adhere to guidelines/ instructions of PFRDA and NPS Trust including the guidelines to ensure uniformity in voting on assets held by NPS Trust.

In case a conflict of interest emerges in the course of the implementation of its stewardship initiatives, KMPFL shall put the utmost value of interest of its subscribers.

Once the conflict of interest has been appropriately disclosed, the Investment Committee (excluding the member disclosing conflict of interest) will take the required decisions.

Principle 3: Institutional investors should monitor their investee companies.

Monitoring of Investee Company

KMPFL shall regularly monitor all investee Companies

Manner of Monitoring:

1. KMPFL shall supervise and monitor investee companies in respect of important aspects which may include performance of the companies, corporate governance, strategy, risk, to the extent these are available from public sources.
2. Further, KMPFL shall actively monitor the investment companies for the threshold of large investments (currently where it holds more than 2% of the paid up share capital of an investee company and has suffered a reasonable decline in value) shall be prescribed by Investment committee.
3. The Investment Committee shall review the monitoring and engagement activities being carried out by the investment team on an annual basis.

Principle 4: Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should have a clear policy for collaboration with other institutional investors, where required, to preserve the interests of the ultimate investors, which should be disclosed.

Intervention Policy

The company may intervene in case of large investments (where it holds more than 2% of the paid up share capital of an investee company and has suffered a reasonable decline in value), 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 disclosure, inequitable treatment of shareholders, non compliance with regulations, performance parameters, governance issues, related party transactions, corporate plans / strategy or any other related matters.

The company may consider intervening in matters below the thresholds, if in the reasonable opinion of the Investment Committee, the issue involved may adversely impact the overall corporate governance or the Company's investment

The mechanism followed by the company for intervention shall include:

1. Communication & engagement: The Company shall communicate and engage with the investee company's management about any concerns of the Company including steps to be taken to mitigate such concerns. If the matter comes to voting, the Company shall exercise its voting rights.
2. Collaboration: The Company shall engage with other Pension Funds as prescribed by PFRDA and NPS Trust while undertaking any voting and also consider collaboration with other institutional investors, professional associations, regulators, and any other entities

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where it deems necessary. The act of collaboration with other institutional investors shall not be deemed to be an act of collusion or persons acting in concert.

3. Escalation: In case there is no progress despite the first two steps, the Company shall escalate the matter to the IC. If the IC decides to escalate, the Company shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. The Company may also consider discussing the issues at the general meeting of the investee company.

Principle 5: Voting and disclosure of voting activity

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The company shall continue to exercise its voting rights and follow the Voting Policy formulated pursuant to the circular PFRDA/2017/17/PF/1 dated April 20, 2017 issued by PFRDA and any modifications / amendments thereto while discharging this principle. The disclosures in adherence to this principle shall be made as prescribed by PFRDA & NPS Trust from time to time.

Principle 6: Reporting requirements-

Institutional investors should report periodically on their stewardship activities.

KMPFL shall follow the reporting requirements including the formats of reporting as per the formats prescribed by PFRDA in accordance with the guidelines set out by the authority vide its circular ref PFRDA/2018/01/PF/1 dated May 04, 2018 and as may be modified from time to time.

1. The Company shall publicly disclose a report on voting undertaken as per the requirement of the Voting Policy and other reports as may be prescribed by PFRDA from time to time
2. The Company shall publicly disclose the updated Policy as and when modified.
3. The Company shall also place a report on its compliance status with the Stewardship principles of PFRDA on an annual basis.

Any deviation from this policy must be approved by the Board of Kotak Mahindra Pension Fund Ltd and the policy may be reviewed annually by the Board or such shorter duration as the Board deems fit in the wake of changing business environment.