

IIFL MANAGEMENT SERVICES LIMITED
(STEWARDSHIP CODE)

Disclaimer

In providing a set of principles through which the Investment Manager intends to manage any potential conflicts of interest, we intend that this document should be for guidance only. Accordingly, this document (“Policy/ Code”) is being provided (to the extent permitted by law) without liability. The document is not intended to create third party rights or duties, nor is it intended to form part of any contract between the Manager and any investor in the Funds.

I. Introduction

IIFL Management Services Limited (the “**Investment Manager**”) provides investment management services to Alternative Investment Funds (each Alternative Investment Fund collectively referred to as “Funds” and individually as “Fund”) registered with the Securities and Exchange Board of India (“**SEBI**”) under the SEBI (Alternative Investment Fund) Regulations, 2012, (“**AIF Regulations**”).

This Stewardship Code (“**Code**”) shall be applicable to the Investment Manager, in relation to the investments in listed equities made by the Funds.

II. Objective

The importance of institutional investors in capital markets across the world is increasing around the globe and hence, they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies. Such activities are commonly referred to as ‘Stewardship Responsibilities’ of the institutional investors and are intended to protect their clients’ wealth. 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.

SEBI *vide* its circular CIR/CFD/CMD1/ 168 /2019 dated December 24, 2019 has issued Guidelines on Stewardship Code (Code/ Policy) for all Mutual Funds and all categories of Alternative Investment Funds, in relation to their investment in listed equities.

This Code/ Policy has been adopted in the current form pursuant to the approval of the Board of Directors of the Investment Manager and the Trustees (collectively referred to as “Boards” and individually as “Board”). Any modification to the Policy shall be approved by the Boards, however, updation / modification to any requirement specified herein pursuant to amendment to any regulations / guidelines / rule shall automatically deem to form part of this framework / policy.

III. Stewardship Code

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

1.1. Primary stewardship responsibilities: The Investment Manager 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 to the extent it aligns with the data-centric decision making of our underlying strategy while staying away from making adhoc or subjective ‘opinion-based’ decisions;

- (b) enhance investor value predominantly through data-centric assessment of a company's health and management's performance with selective fact-seeking rather than seeking their opinions;
- (c) when voting or engaging with investee companies, will keep the best interests of investors whilst fully realizing that due to very small stakes, we have limited influence if any on their corporate decision making, as explained above;
- (d) be accountable to investors within the parameters of professional confidentiality and regulatory regime;
- (e) maintain transparency in reporting its voting decisions and other forms of engagement with investee companies; and
- (f) Disclose its stewardship policy and activities to its investors on a periodic basis.

1.2. Discharge of stewardship responsibilities: The Investment Manager shall discharge its stewardship responsibilities through:

- (a) Emphasis on “publicly available data as primary source and fact-based interaction with the investee company as and when needed while not seeking any subjective opinions”; this is at the center of the investment process.
- (b) Using resources, rights and influence available to regularly monitor and actively engage with the investee companies; and express opinion as a responsible investor.
- (c) Voting on board or shareholders' resolutions, with a view to enhance value creation for the investors and the investee companies.

1.3. Periodic review of the Code: The Code shall be reviewed on yearly basis by the Investment Manager (or earlier if there are any material developments).

2. 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

- 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 Investment Manager (including its employees, directors and officers) conflict with the interests or benefits of its investor or the investee company.
- 2.2. Avoid conflict of interest: The Investment Manager is responsible for discharging stewardship responsibilities and shall undertake reasonable steps to avoid actual or potential conflict of interest situations.

- 2.3. Identifying conflict of interest: While dealing with investee companies, the Investment Manager may be faced with a conflict of interest, inter- alia, in the following instances, where:
- (a) the Investment Manager and the investee company are associates or are part of the same group;
 - (b) Investee company holds a material ownership interest in the Investment Manager;
 - (c) Investee company is an entity participating in the distribution of investment products advised and/ or managed / administered by the Investment Manager and / or any of its associates / group companies;
 - (d) Investee Company is a client of Investment Manager and / or of its affiliates / associates / group companies;
 - (e) any of the group companies or associates of the Investment Manager is a vendor or partner of the investee company;
 - (f) a nominee of the Investment Manager has been appointed as a director of the investee company or there is cross-directorships.

2.4. Manner of managing conflict of interest:

- (a) The interests of the beneficiaries will take precedence over the interests of the Investment Manager (and its employees, directors and officers). Therefore, the Investment Manager will vote / take decisions on stewardship matters in the best interests of its beneficiaries;
- (b) There is a clear segregation of voting function and client relations / sales function;
- (c) The person(s) having any actual / potential conflict of interest in the transaction will have to recuse from decision making and will not be allowed to participate;
- (d) Blanket bans on investments in certain cases, if deemed necessary;
- (e) Record of minutes of decisions taken to address the actual or potential conflict of interest will be maintained.

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

- 3.1. The Investment Manager will be responsible for monitoring all the investee companies the Schemes of the Funds invests in.
- 3.2. The monitoring will be based on publicly available information, management meetings, sale side research and industry information.

3.3. The Investment Manager will seek various data and information from public sources as well as send occasional queries on need basis to investee company's management to get information about companies' finances, operations and other aspects of decision making, however it will strategically stay away from getting influenced or biased by subjective opinions expressed by managements, various entities, and market players by avoiding getting into personal meetings or any kind of close relationships.

3.4. Manner of Monitoring:

(a) The Investment Manager 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, 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 to the extent quality data is available and can be analyzed by it through use of algorithms and automation.

(b) The Investor Manager may use publicly available information, sell side research reports and industry information to monitor the investee companies.

(c) While dealing with the investee company, the Investor Manager shall ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015. The Investment Manager 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.

4. 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 ultimate investors, which should be disclosed

4.1. The Investment Manager may intervene in case of significant investments, 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 of the company corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigation etc.

4.2. The decision for intervention shall be taken by the Investment Manager on a case to case basis based on all available facts of the investee company at that point of time. The Investment Manager may decide to intervene if it believes that its intervention is required to protect value of the investment and for discharging its stewardship responsibility. Intervention may also be considered even when the volume of investment is low, if the circumstances so demand.

- 4.3. Intervention may generally begin with a process of holding additional meetings with the company management to enhance understanding of their view and also help the company to understand Scheme position. If initial intervention fails, following steps can be taken:
- (a) Meeting or otherwise communicating with senior management
 - (b) Expressing our concerns via company appointed consultants or brokers, if any
 - (c) Withholding support or voting against management
 - (d) Collaborative intervention with other institutional investors
 - (e) Submitting resolutions at general meetings
 - (f) Requisitioning extra ordinary general meetings
 - (g) Divestment of shares
 - (h) Legal recourse against the company, if deemed necessary
- 4.4. The Investment Manager is prepared to act collectively with other investors when it is in the best interests of our unitholders.
- 4.5. There may be occasions when it is more effective to work with other institutional shareholders to influence company management and effect positive change. For example, where singular discussions with management have failed to achieve the desired outcome or where Scheme owns a very small percentage of the company. Collaborative engagements shall be entered on a case by-case basis to ensure that the objectives of such engagements are aligned with Scheme policies and investment objectives.

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

- 5.1. **Applicability:** The Investment Manager shall vote on all shareholder resolutions of all investee companies if the holding of the Schemes of the Funds is greater than 1% of the investee company's paid-up share capital or on such resolutions which affect the interest of shareholders. In such cases, the Investment Manager 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 voting policy, which is available here as Annexure I.
- 5.3. The Investment Manager shall vote against resolutions which:
- (a) are not consistent with the voting policy, or

(b) which are not in investors' best interests.

- 5.4. Attendance at General Meetings: The Investment Manager shall, subject to the considerations and limitations described in this document above, may attend general meetings of the investee companies (annual as well as any extra ordinary shareholders' meetings) when appropriate, actively speak and respond to the matters being discussed at such meetings.
- 5.5. The Investment Manager shall be required to 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 are addressed in the exercise of voting rights. Where the Investment Manager chooses not to vote in specific circumstances, for example, where holdings are below certain thresholds, this should be disclosed.
- 5.6. The Investment Manager shall disclose all voting activity on a yearly basis and a detailed report on voting in the quarterly compliance report on its website.

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

- 6.1. The Investment Manager shall issue a report to its investors detailing the compliances or non-compliance (with justification of any non-compliance) with each of these stewardship principles and the requirements set out in this 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 on quarterly basis.
- 6.2. The Investment Manager shall also on quarterly basis report its compliance status with the Code in an easy-to-read format and shall such reports in the quarterly intimation made to its shareholders/ investors.
- 6.3. The Investment Manager should maintain records of meetings, voting and engagement to documents summaries of stewardship activities for the benefit of its shareholders/ investors.

Annexure I: Voting Policy

POLICY FOR EXERCISING VOTING RIGHTS IN RESPECT OF SHARES HELD BY SCHEME(S) OF THE FUNDS MANAGED BY IIFL MANAGEMENT SERVICES LIMITED

Objective & Background:

The Securities and Exchange Board of India (SEBI) vide its Circular No. CIR/CFD/CMD1/168/2019 dated December 24, 2019 (SEBI Circular) has prescribed stewardship principles to be adopted and implemented by all Mutual Funds (MF) and all categories of Alternative Investment Funds (AIF).

IIFL Management Services Limited is an Investment Manager to the Funds and invests in various securities as per the Investment Objectives of the respective Schemes.

IIFL Management Services Limited (“Investment Manager”) has adopted the Stewardship Code (“the Code”) which lays down the principles and guidelines to monitor and engage with the investee companies on various matters including performance, strategy, corporate governance, material environmental, social and governance (ESG) opportunities and risk, capital structure and exercising voting rights on shareholder resolutions of Investee companies. The fifth principle provides the requirement for disclosure of the policy and procedure, for exercising the voting rights in respect of shares held on behalf of the schemes on their website.

The Voting Policy contains the principles that form the basis for exercising the voting rights attached to shares in which Schemes of the Funds have invested and the processes that would be followed by the Investment Manager towards exercising said voting rights.

Objective underlying voting exercise:

While deciding on exercising a vote, the objective of the Investment Manager would be:

1. To support such proposals that tend to maximize shareholders' value and in turn value of unit holders;
2. To signal dissent to proposals that favour promoters / dominant shareholders at the expense of other (minority) shareholders;
3. To ensure that the decision to cast a vote is not influenced by conflict of interest;

Mechanisms to be followed for voting:

IIFL Management Services Limited shall endeavor to vote on all resolutions which may affect its unitholders interests, either by electronic means, postal ballot or through attendance.

Internal mechanisms for voting:

- **Guidelines for exercising a vote**

Specific decision on a particular resolution i.e. to support, oppose or abstain from voting, shall be taken on a case-to case basis considering potential impact of the vote on shareholder value and interests of the unitholders of the Schemes of the Funds at large. The Investment Manager may also, at its discretion, choose to abstain from participating in any resolution and hold a neutral stance, concerning of no major relevance for the shareholder value and/or unitholder interest.

- The general guidelines which the Investment Manager would follow while evaluating voting decisions are as follows:
 1. The Investment Manager shall support changes to the capital structure which appear to give better returns on capital employed and in the long-term interest of the shareholders.
 2. Votes on key decisions concerning fundamental corporate changes, extraordinary transactions, key corporate governance decisions, shall be decided on the case to case basis in the long term interest of the Unit holders.
 3. The Investment Manager shall support proposals for employee stock option plans which appear to have been designed for creating employee ownership culture which in turn would enable better employee participation and value creation.
 4. The Investment Manager shall generally support the proposal for appointment of independent directors as proposed by Board of Directors of the Company and generally support proposals that strengthen the independence of the Board of Directors of the investee Companies.
 5. Other proposal submitted to shareholders related to selection of the auditors, amendments to the company's charter or by-laws and Issues, including those business issues specific to the issuer or those raised by shareholders of the issuer, would be addressed on a case-by-case basis with a focus on the potential impact of the vote on shareholder value.
- **Conflict of Interest:** When considering investments in Group Companies / Company(ies) that have subscribed to the Units of the Schemes of Alternative Investment Funds, the Investment Manager, inter alia, will ensure that (a) investments in such companies are not restricted by the Scheme specified Investment Objective/ Asset allocation / Investment Restrictions; (b) such transactions are for pure commercial consideration; after having evaluated the same on merits; (c) such transactions are at arm's length with no consideration of any existing / consequent investments by an Investor/group of investors.

Disclosure of Voting:

In terms of SEBI circular CIR/CFD/CMD1/168/2019 dated December 24, 2019 and the Investment Manager shall quarterly disclose in the Quarterly Report the actual exercise of the votes in the general meetings of the investee company in the following manner:

- a) The specific rationale supporting the voting decision (for, against or abstain) with respect to
Each vote shall be recorded and disclosed.
- b) A summary of votes cast across all investee companies and its break – up in terms of total Number of votes cast in favor, against or abstained from.
- c) The disclosures shall be made (in spreadsheet format) in quarterly report.
Further voting details shall also be disclosed in the quarterly reports of the schemes to investors.
- d) Format for disclosures will be as prescribed in the relevant SEBI Circulars from time to time.
- e) Board of the Investment Manager shall review and ensure that AIF has voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate.

Disclosures in case of Proxy Voting:

The actual exercise of the proxy votes in the AGMs/EGMs of the investee companies shall be disclosed to the Unit Holders and on the Website of the Investment Manager 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; and
- f. Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular