

Responsible Investment Policy

I. Responsible Investment Approach

At SBI Funds Management Private Limited (SBIFMPL), our vision is to be a trusted and respected Asset Manager. Our mission is to be an ethical, responsive and innovative partner in investment solutions. As an asset manager, our fiduciary responsibilities towards our clients include long-term wealth creation and risk mitigation, and towards the community at large including matters of social, governance and environmental factors. At SBIFMPL, as part of our fiduciary responsibility, value system and risk management strategy, it is our core belief that a business, run in best interests of all stakeholders seldom fails to create a lasting value for its investors. This responsibility can be best served, not by trying to maximise short-term profitability, but by ensuring optimisation of long-term return and risks.

Our belief is that a Responsible Investment (RI) approach is perhaps the best way to ensure longer term wealth creation for our clients. We expect the regulatory framework to evolve towards increasing transparency and increased efforts towards environmental sustainability. We expect many corporations to start reporting and go beyond their mandate to create positive value within the matrices of environment and society in which they operate. SBIFMPL actively encourages the integration of ESG criteria in the investment process.

II. Responsible Investment Foundation

At SBIFMPL, we showcase our commitment to responsible investment paradigm by supporting various national and international initiatives that aspire for long term sustainability. Some of the initiatives are as follows:

- UN Principles for Responsible Investments (UNPRI): We are signatories to the UNPRI and are thus committed to integrating ESG factors into our investment analysis, decision-making processes and asset management practices.
- Climate Action 100+: We are signatories to the CA100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
- We were the first large mutual fund in India to voluntarily adopt CFA Institute's Asset Manager Code of Conduct.
- We have been an active member of the India Focus Group (CII <IR> Lab) to promote "Integrated Reporting" in India.
- In resonance with our efforts to integrate ESG within our reporting framework, we launched our first Integrated Report in September 2019.
- We were among the earliest asset managers to start voting on company resolutions and also to engage proxy advisory firms. Increasingly, our focus has been on active engagement with investee companies on ESG related issues.
- We launched 'SBI Growth with Values Portfolio' (focused on ESG and SRI principles), under our Portfolio Management Services in 2016. One of our flagship mutual fund schemes, SBI Magnum Equity Fund, has been re-positioned as SBI Magnum Equity ESG Fund, the first ESG fund in Indian Mutual Fund Industry.

III. Responsible Investment Strategy

The Responsible Investment strategy of SBIFMPL is focused on three core areas:

- **Integration:** We seek to include material environmental, social and corporate governance (ESG) considerations within the investment decision making processes.
- **Engagement, voting and stewardship:** We wish to fulfil our obligations as an active owner and use our influence as a major institutional investor to promote good ESG practices.
- **Market transformation activities:** We engage with various stakeholders including policy makers, regulators, industry bodies, market participants and media to create a supportive ecosystem for responsible investing.

The responsible investment strategy applies to all markets and all asset classes. We have integrated responsible investment considerations in the investment appraisal for equities since 2011. The process of including assessment of fixed income investments within the ESG framework is underway.

III a. ESG Integration in Investment Decisions

At SBIFMPL, we integrate ESG factors into our research and investment decision making process. ESG research focuses on the critical environmental, social and governance factors which can have a material impact on the long-term sustainable performance of the company. We firmly believe companies with improved management of ESG practices, can optimise their business models thereby increasing productivity, creating a distinct competitive advantage and increasing consumers' brand trust to deliver sustainable shareholder value. It also presents an avenue to effectively manage risks as well as take advantage of opportunities. This will not only unlock greater value for the company and its shareholders, but also contribute to the desirable social and environmental outcomes we believe in.

SBIFMPL has developed a fundamental, bottom-up investment framework to evaluate companies on ESG for its equity investments. ESG analysis is a mandatory component of our equity initiation reports. The first step involves a thorough financial analysis through SBIFMPL coverage (please refer to Investment Policy corpus 5.1 Equity Research process). This is followed by an in-depth ESG analysis to determine final investment recommendations. We have a two-pronged approach for integrating ESG considerations in our equity portfolio:

- **Internal Framework for ESG integration:** We have formulated an internal framework to score the ESG performance of every company in our coverage. Our ESG analysis is based on a *Best-in-Class approach*. The methodology consists of scoring companies on their ESG practices on over 40 parameters related to a firm's disclosures on environmental, social and governance initiatives and aims at assessing its compliance as well as pro-active readiness for ESG issues on a scale of 1-100. The scores are assigned based on data available through primary and secondary sources. Material issues like carbon emissions, air emissions, waste management, water consumption, afforestation, effluent management and energy efficiency etc. are covered under the *environment* segment. The *social* aspect is assessed on the disclosures related to their relations with community, and workforce, especially with reference to diversity, wage, health and safety issues. We also have a firm belief that good *governance* is the key to a sustainable organisation, and therefore, we evaluate the board composition, accounting and audit quality and disclosures, anti-corruption policies etc. to assess their governance practices. Though overall ESG integration is the "best in class approach", we also apply an exclusion methodology for certain specific funds. The framework is still evolving, and we endeavour to ensure robustness of our ESG assessment.

- **External Agency rating on ESG performance:** We have partnered with both domestic and international service providers that rate companies on the basis of their ESG risk profiles and management initiatives. Risk profiles are determined on the basis of their business and geographic locations. The rating takes into account all environmental, social and governance issues material to the company. This provides us in depth data to assess a company's performance year-on-year and across its sectoral peer groups.

III B. Engagement and Voting

Engagement and voting at listed companies have been core RI activities at SBIFMPL. As an institutional investor that takes its fiduciary duty and stewardship obligations seriously, SBIFMPL is an active owner and considers the effective management and board oversight of ESG issues to be integral to long-term performance. SBIFMPL monitors investee assets and actively encourages good corporate governance practices and responsible corporate behavior.

Engagement:

The investment team monitors and engages with the investee companies on ESG matters. Engagement can take many forms, such as sending letters to individual investee companies, participating in collaborative engagements or one-to-one meetings with the investee companies' management team.

The aims of individual engagements can also vary, including for example:

- Stewardship engagement to monitor assets and ensure appropriate ESG standards are being applied.
- Relationship engagement to ensure that SBIFMPL develops a strong relationship with management, as a long-term investor.
- Active engagement to encourage change in order to see material value enhancement or ESG risk reduction. Some of the issues that we focus during such dialogues are:
 - Improvement in ESG standards and disclosures
 - Importance of sustainability initiatives and transparency, with relevance to their business
 - Peer comparison and global/national positioning with respect to sectors
 - Evolving regulatory frameworks with an increased focus towards ESG

SBIFMPL undertakes all the above forms of engagement on a continuous basis and as appropriate. The engagements may be proactive or reactive. Engagements may be event driven or undertaken in response to specific opportunities such as collaborative initiatives led by other investors. SBIFMPL also prepares and provides compendiums of relevant global as well as domestic best practices to encourage learning and knowledge sharing.

Engagement priorities are determined by the investment team considering our stakes in the companies as well as their weights in various benchmark indices. For example, the engagement is much more intense with companies where the cumulative shareholdings of portfolios managed by SBIFMPL is above 3% of the company's equity.

Voting:

At SBIFMPL, we consider shareholder voting to be an important shareholder right and a valuable tool in the engagement process and endeavour to vote on all board resolutions of investee companies which are critical for protecting and enhancing the investor's interests. While we use proxy voting advisory services from reputed service providers to help analyse company proxy materials and statements, all votes are confirmed in house by the analyst team, in discussion with the portfolio

manager/s. We aim to vote in an informed and pragmatic manner, taking into consideration a company's unique circumstances. We take into consideration any additional information we may receive from the company before making a final decision.

III c. Public Policy & Market-wide Initiatives

At SBIFMPL, we seek to influence and address thematic, sector and market related issues that could impact the performance of its investments. We actively engage with the regulators and other stakeholders on policy advocacy matters. We also actively contribute to consultations and participate in industry debates on these topics. We also participate in various forums regarding our experience of ESG integration and the roadmap ahead as a means to share knowledge as well as create awareness.

IV. ESG specific resources

ESG Committee:

SBIFMPL has set up an ESG committee comprised of the Chief Investment Officer, Fund Managers and dedicated analysts focusing on ESG. The investment universe is scanned and reviewed on a monthly basis by a dedicated ESG Committee. The ESG Committee also reviews and guides the team managing ESG compliant strategies in various aspects of ESG Integration and engagement with investee companies.

The Chief Investment Officer (CIO) also heads the ESG Committee Review meetings to take stock of the progress on ESG activities periodically. Following activities are undertaken in the periodic review meetings:

- Discussion on performance of ESG Funds
- Tracking ESG scores and rating movements of companies in the investment universe
- Progress on deliverables of international commitments like UNPRI and CA100+
- Tracking and reporting the progress on engagement initiatives with investee companies
- Brainstorming on new ideas and strategies to initiate more companies on ESG disclosures and performance benchmarking
- Deliberating on new avenues of national and international cooperation for mainstreaming ESG initiatives
- Discussion on new ESG trends/regulations in the country and future actions for the committee
- Agenda and deliverables for next committee meeting

Proxy Voting Committee:

We have a high-level committee for Proxy Voting. The Committee is chaired by the Managing Director & Chief Executive Officer (MD&CEO) and constitutes of the Deputy CEO, Chief Investment Officer (CIO), Chief Risk Officer (CRO), Company Secretary (CS) & Head of Compliance, and the Vice President of Investment Process and Risk Control (VP-IP&RC). In the absence of the Chairperson, the Committee can be chaired by the Deputy CEO or the CIO and requires a quorum of at least four members. For the voting process, at least three signatures are required, one of which should be of either the MD&CEO, Deputy CEO or the CIO with the rest two from the other committee members.