Stewardship Report 2020-2021

Introduction

The definition of stewardship has evolved over time, but the key concept has remained consistent, which is to motivate investors to act as responsible owners by monitoring and engaging with their investee companies (or issuers) to generate long-term value for shareholders. Stewardship is increasingly seen as a way for institutional investors to discharge their fiduciary obligations, to improve long-term returns, and to enable them to exercise their governance responsibilities efficiently. Recently, the concept of stewardship has expanded further, with definitions now including other participants in the investment management ecosystem, by making references to sustainability, or environmental, social, and governance (ESG) goals in the investment process.

SBI Funds Management Private Limited (SBIFMPL) derives a great sense of honour and pride in being the largest asset manager in the country. Owing to the sheer size of the organisation, the AMC has a huge fiduciary responsibility to harbour trust and transparency amongst the clients, investors and all other stakeholders of the AMC. Direct communication with issuers and stakeholders is an important part of the AMC's research and investment processes. Constructive engagements are carried out with management and directors to discuss such the organisation's strategy, capital allocation, business operations, governance, and a wide variety of other topics, including ESG issues. Engagements take place both before the initial investment is made and as part of the AMC's ongoing monitoring of issuers. In addition, the AMC engages with other stakeholders such as consultants, other experts, academicians, international investors, associations, regulators and policy makers etc. as part of SBIFMPL's research process. These non-corporate engagements help us in expanding the AMC's knowledge base to contribute better in its corporate engagements and help participate in the evolution of supporting ecosystem for ESG adoption.

Reporting on Discharge of Stewardship Responsibility

SEBI vide its circular no. CIR/CFD/CMDI/168/2019 dated December 24, 2019 ("SEBI circular") has mandated all Mutual Funds and Alternative Investment Funds to frame Stewardship Code in relations to their investments in listed equities. The circular requires reporting of stewardship activities as prescribed in the circular.

SBI Funds Management Private Limited's (SBIFMPL / the AMC) vision is to be a trusted and respected Asset Manager by being an ethical, responsive and innovative partner in investment solutions. The AMC's fiduciary responsibilities towards its clients include long-term wealth creation, protection of interest of investors and risk mitigation; and towards the community at large include matters of social, governance and environmental factors.

At SBIFMPL, it is a core belief that a business run in best interests of all stakeholders seldom fails to create lasting value for its investors. This responsibility of not trying to maximise short-term profitability, but ensuring optimisation of long-term return and risks is well elucidated in SBIFMPL's Responsible Investment Policy. The Stewardship Code is a natural extension of the AMC's responsibility to protect and enhance the long-term economic value of its clients' assets. This policy is applicable for Mutual Fund as well as AIF (Alternative Investment Fund) activities undertaken by SBI Funds Management Private Limited.

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

Compliance Status: Complied with

The Board of AMC and Trustee Company has approved the Stewardship Code on February 26, 2020. Further, an updated policy was reviewed and approved by the Board of AMC and Trustee Company at their meeting held on April 28, 2021.

SBIFMPL's Stewardship Code may be accessed here:

https://www.sbimf.com/_catalogs/masterpage/assets/SBI%20Mutual%20Fund's%20Stewardship%20Code.pdf

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.

Compliance Status: Complied with

SBIFMPL has designed the Policy for Management of Conflict of Interest to ensure that the interest of the client/beneficiary is placed before the interest of the AMC. A Committee comprising of Deputy CEO, Chief Risk Officer and Chief Compliance Officer has been constituted to deal with exceptional circumstances of conflict. The Chief Investment Officer will be a permanent invitee to this committee.

SBIFMPL will identify actual or potential conflict of interest situations and shall manage them in line with the Policy. There was no significant instance of conflict of interest noted by during the period. SBIFMPL's dealings with investee companies which are a group entity have been carried out at arms-length basis and are in compliance with applicable laws and regulations.

Principle 3 Institutional investors should monitor their investee companies Compliance Status:

Compliance Status: Complied with

The Fund Management & Research Team (referred as investment team) is responsible for the monitoring of the investee companies' performance. The investment team continues to monitor each investee company. As a part of this process, the fund manager/analysts, where feasible, attend meetings/conference calls conducted by the management of the investee company. Fund Managers and analysts use publicly available information, sell side research and industry information and endeavour to engage with the investee companies at least once a year, through any means detailed above. The Investment Committee has reviewed the investee company monitoring and engagement activities for the said period.

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 the ultimate investors, which should be disclosed.

Compliance Status: Complied with

SBIFMPL would intervene in its investee companies, on a case-to-case basis, wherever it deems necessary. The decision in this regard will be taken by the Committee consisting of CIO – Equity, CIO – Fixed Income, respective Fund Managers(s), ESG analyst(s), Chief Risk Officer, Chief Compliance Officer or any other official(s) as invited.

Following are the details of SBIFMPL's ESG engagement in FY 2020-21:

SBIFMPL believes in being an active steward to drive responsible behaviour and sustainability across its investee companies. The AMC has not only pioneered the discussions around ESG with the Indian companies but has also hand-held quite a few companies to embark on a sustainability journey. The AMC has had to play a role of an educator as well as activist to push companies towards adoption and reporting of ESG initiatives.

1) Corporate Engagements:

In the reporting year (Apr 2020 – Mar 2021), SBIFMPL conducted 80 engagements with Indian corporates, with 58 individual companies. 53% of these engagements led to 2-3 interactions/meetings with the companies on specific ESG issues and the AMC helped these companies with landscape studies, peer assessments or market assessments to aid their smooth transition (Level 3 engagement). 29% of the engagements included at least one meeting followed by questions sent by the AMC to the companies, where the companies responded by either providing answers or clarifications with a future strategy of improvement (Level 2 engagement). In 17% of the engagements, the companies had met the AMC once and took cognizance of the ESG concerns but did not follow up with a definite response. The issues taken up in these engagements varied from ESG disclosures and practices, climate change, corporate governance, health & safety, labour relations etc.

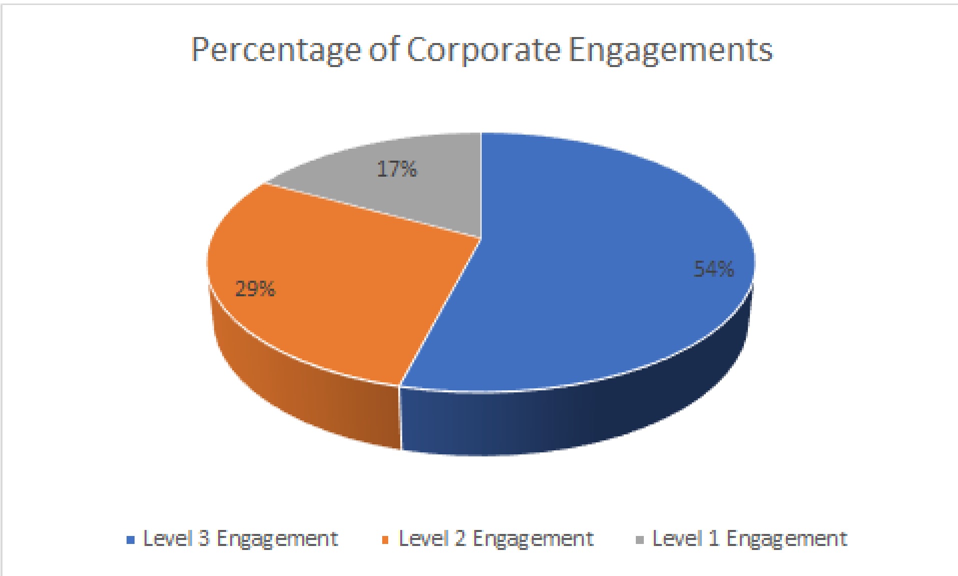

Figure 1: Levels of Corporate Engagement based on Company Responses on ESG issues

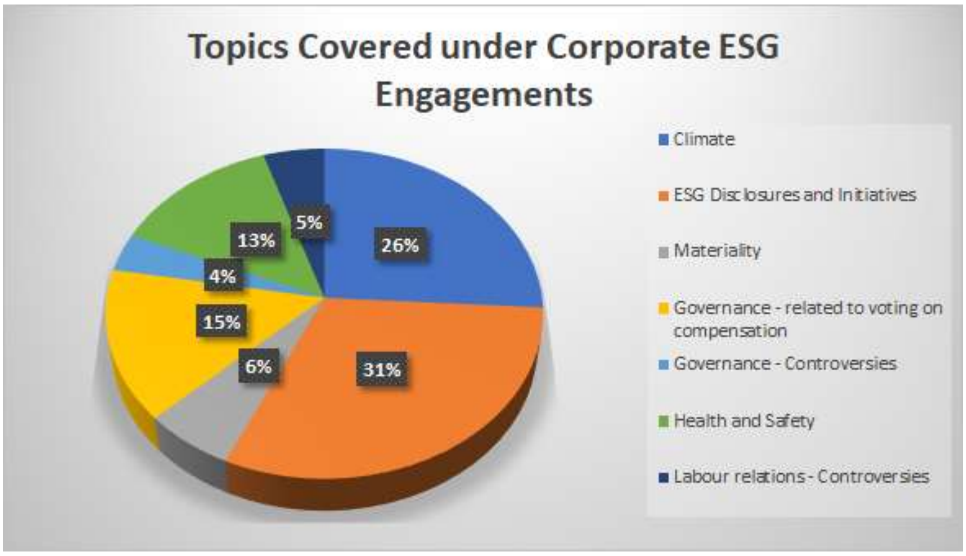

Figure 2: Topics Covered under Corporate ESG Engagements

2) Non-Corporate Engagements (Market transformation activities):

The Indian market is still warming to the idea of responsible investment. Regulatory frameworks are evolving rapidly, and market actors are strongly reacting to negative ESG events. In such a scenario, being the largest asset manager in India, SBIFMPL has the responsibility to help create an ecosystem where sustainable finance can flourish.

In the reporting year, SBIFMPL undertook 139 engagements with non-corporate stakeholders like investors, regulators, think tanks, industry associations etc. which catered to market transformation activities to mainstream ESG in India. Of these 139 interactions, SBIFMPL contributed 41 times as an active member of various sub-groups, carried out 21 engagements with ESG experts, 20 with investors, 14 with rating agencies, 6 with industry associations, 2 with proxy advisors and one with a labour union. The AMC contributed by speaking in 10 conferences related to ESG, contributing to 9 roundtable discussions as a panellist and attending 15 conferences as an attendee. Of these engagements, 34% activities were aimed at driving ESG adoption and integration in the Indian market, 24% were related to climate change, 19% to sustainable finance and 6% each to corporate governance and just transition. Rest of the activities catered to creation of conducive environment for advanced reporting frameworks (4%), improving labour relations (4%), SDGs (1%) and Stewardship efforts (1%).

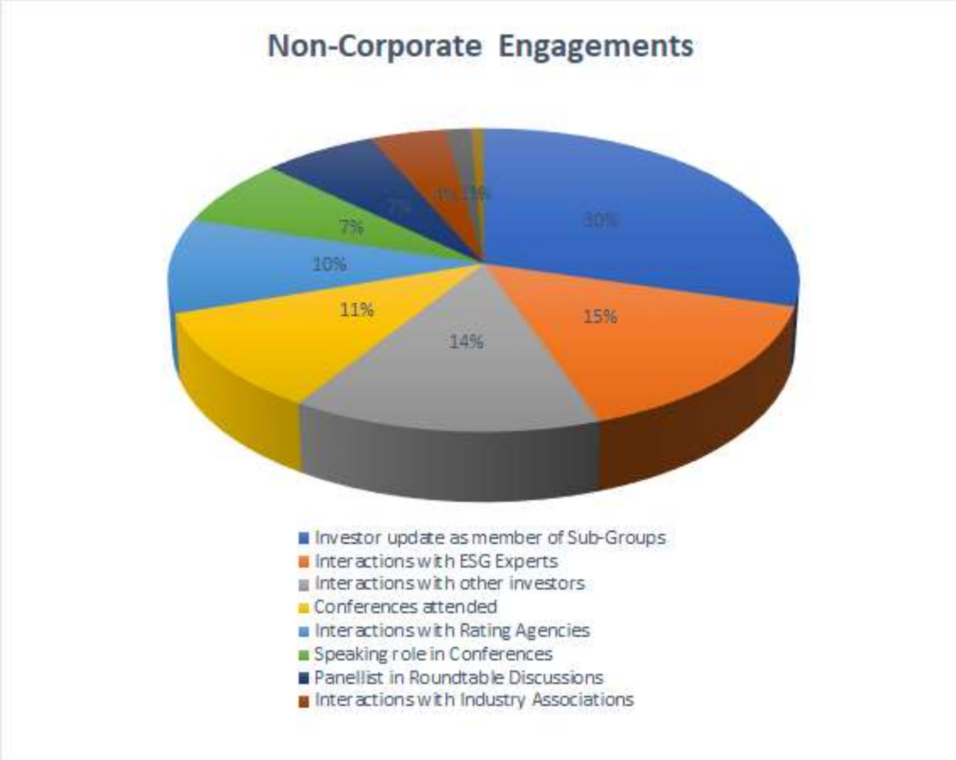

Figure 3: Engagements carried with Non-Corporate stakeholders under Market transformation activities

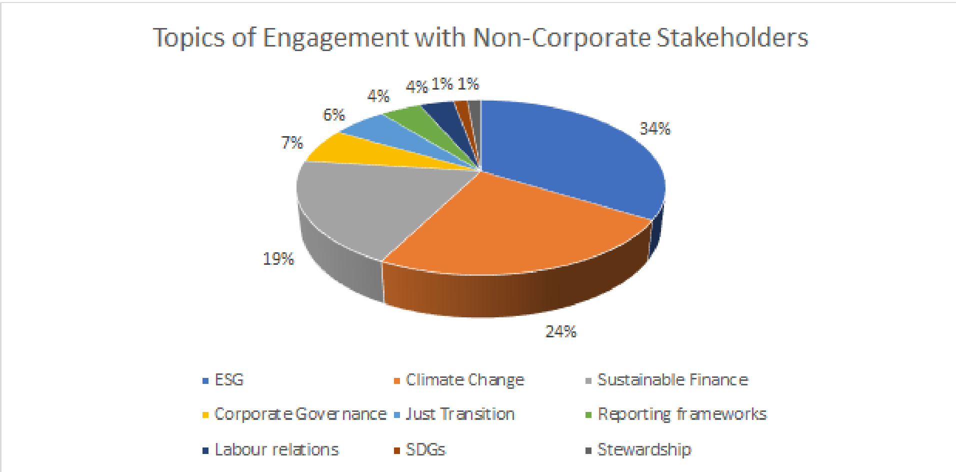

Figure 4: Topics covered under Engagements with Non-Corporate stakeholders to aid Corporate engagements towards Market Transformation activities

For its dedicated stewardship efforts, SBIFMPL was awarded the ICGN Global Stewardship Champion Award in 2020.

Case Studies of Engagements and their Outcomes

Case Study 1: Coal Mining Company

SBI Funds Management Private Limited firmly believes that as the largest asset manager in the country, the fund house has the responsibility to participate actively in the low carbon transition of the country. Investors across the world are moving away from fossil fuel-based investments, however, for a country like India, where energy access challenges are equally important to address for the economy, a complete exclusion of fossil fuel-based businesses might not be the right way forward. ESG assessment frameworks are also increasingly moving towards ESG improvers rather than historical data assessment for ESG performance. This would mean that while the historical proof of ESG performance and controversy would have a bearing on a company's assessment, however, the strategy, targets and initiatives that the company has set for the future and the improvements that it is making at present, have the potential to differentiate it as the ESG improver in the coming times. In this context, SBIFMPL believes that such ESG improvers must be engaged with to support them towards their journey of low carbon transition.

One of such companies is the largest State-Owned Coal Mining Company of India. SBIFMPL started by broaching the ESG questions to the CMD of the company on an analyst call when analyst calls were predominantly thought to conduct only financial discussions. SBIFMPL believes that top management has a critical role in empowering the right teams within the company to take corrective actions towards ESG initiatives. Till this time, the Company was publishing a very basic Sustainability report without any deeper insights into its quantitative ESG based information. The international perception of the company towards carbon emissions was also negative as the company is in the business of mining coal and due to lack of information around ESG initiatives, and due to the large Scope 3 emissions attributed to it the company is perceived as one of the largest carbon emitter in the country. The CMD's office got the internal team at the company activated and the in-depth engagement with SBIFMPL started. SBIFMPL provided insights to the company about investors' expectations around climate change disclosures and provided them a detailed document on what carbon disclosures they could look at as they start their ESG journey. The CMD promised that the ESG disclosures of the company would start by the next year and the tender for the same was floated within the next month. SBIFMPL kept engaging with the company as international organisations continued to benchmark the company's initiatives across the other identified high carbon emitters in the world. In the two-year long journey, the company made significant announcements regarding carbon transition. The company set a goal to become a zero-energy company and for that, they have taken numerous steps:

- Exploring alternate use of coal including coal gasification and coal-to-chemicals
- Changing transportation means from diesel driven vehicles to electrical means
- Generating solar power from both rooftop and ground mounted plants
- Diversification into business lines like solar wafer manufacturing, aluminium smelting etc.

The company has made huge capex announcements towards these projects and has also released its first assured GRI and SDG aligned Sustainability Report. SBIFMPL feels that its engagement with the company has had a strong impact on the disclosures and practices of the company. SBIFMPL feels that such engagements would prove extremely fruitful in reducing the overall emission profile of high carbon emitters in the country.

Case Study 2: Thermal Power Company

India is at an extremely critical juncture of development today. The country must balance the dual goals of achieving its SDGs and honour it's Paris commitments by 2030. From that standpoint, providing equitable and affordable access to energy to everyone while reducing the GHG intensity of the economy is a tall ask.

From this perspective, SBIFMPL understands that fossil fuels are not going to go out of the energy mix of the country any time soon, however renewables are going to grow by leaps and bounds. Similarly, tech evolution and maturity will pave way for decarbonisation with a focus towards green hydrogen technology, carbon capture technology, energy storage etc. In this context, SBIFMPL has opted for a strategy to engage intensively with heavy carbon emitting companies rather than divest from them.

One such case study is the largest State-owned power utility in India. The company had traditionally been regarded as one of the heaviest carbon emitters and a negative connotation had been attached to the company from the ESG perspective due to its business of generating thermal power. Till three years ago the company did not have much focus on decarbonisation and clean technology. SBIFMPL started engaging with the company in 2018 and kickstarted the discussions around climate mitigation. After continuous and in-depth engagement with the company, today it has markedly increased its footprint in the renewable energy space, has invested in technologies that are not even mature for Indian markets like CCUS, Green hydrogen, green ammonia etc. The company has not only paved a path for lowering its carbon footprint, but has also set short, mid and long-term targets till 2032 and is actively involved in the transition trajectory of the country.

This has been possible only with active investor activism and hand holding of the company. With SBIFMPL's vast access to international case studies and best practices, a strong recommendation base had been formed for the company and the improvement in the company's carbon focus is the result of the continuous joint collaborative effort. SBIFMPL firmly believes that such companies are strategically critical to the transition of India's economy into a sustainable economy and investor support is critical to achieve this transition.

Case Study 3: Auto Company

SBIFMPL rates companies on its internal ESG framework and also takes services of other ESG Rating providers. One of the large automotive companies has traditionally been kept out of the ESG themes within the fund house due to the severe controversy flags raised by the external rating providers for the company owing to a labour issue in 2012. SBIFMPL, in its various interactions with the company management and the general market perception of the company realized that the controversy assessment does not indicate the current reality of the company’s labour practices. The AMC therefore took an extensive engagement with all stakeholders involved to understand the level, depth and relevance of the issue at hand. SBIFMPL not only had multiple meetings with the management and the rating agencies, but also went ahead and engaged with the competitors of the company and the labour union representatives. The fund house also conducted an in-depth search of the old archived news articles from 2012 to 2020 to understand how the situation had evolved. After careful consideration and deep understanding of the issue, the ESG review committee voted on the issue and the results were in the favour of the company. It was decided that ever since the controversy, the company had significantly improved on its labour relations and practices. The competitors and the union representatives agreed that the company is one of the best pay masters in the industry. The company has not faced any other instances of strikes or unrests related to any other labour issue in the last eight years and has designed the best incentives practices like housing facilities along with training and capacity building initiative. The company agreed to SBIFMPL’s suggestions of improved disclosures and engagement surveys with employees to understand their issues every year. The company also agreed to more frequent interactions with the rating agencies to resolve discrepancies in ratings. SBIFMPL’s ESG team decided to remove the exclusions posed on the company by virtue of its severe controversy rating.

Case Study 4: Textile Company

An Indian textile manufacturer located in the south western part of the country was removed from the portfolio of a large Scandinavian Government Pension Fund in 2020. The country's Council of Ethics recommended that the Indian company be dropped due to unacceptable risk for violation of human rights. According to the Council, the investigations carried out by them into working conditions at one of the company's factories identified numerous labour rights violations, including verbal and physical harassment of employees and occupational health and safety hazards. The company also seemed to restrict employees' rights to organise. Moreover, the company failed to help clarify the case or give it the permission to inspect the factory and further failed to comment on the draft recommendation to exclude it from investment by the Pension Fund.

The ouster of the company from such an important fund was widely covered by the media, both international and domestic. The market responded to the news flow and the stock price dropped by 8% in the week when the news broke. SBIFMPL decided to look into the matter as the AMC had invested in the company. The AMC set up calls with the Scandinavian investor to understand how the Council of Ethics approached the issue and carried out the investigation. The AMC found that the Council of Ethics had surveyed only one unit of the company for labour related and safety practices. While the reasons for looking into only one unit remained unclear, the AMC felt that the sample was not representative. Moreover, the AMC found that the company did not allow the inspection inside its premises, because of which the Council had to interview workers outside the premises. Some of these workers were ex-employees and some of them were contractual employees of the company. SBIFMPL also noted the cultural differences in EU and India with respect to worker-manager dynamics. While any kind of verbal or physical abuse is extremely unwelcome and totally unacceptable to the AMC, singling out a specific company on an issue which seems to be the market practice seemed like an overkill.

SBIFMPL arranged a meeting with the management of the company. On this issue, the company had released a press note saying that they have replied to each and every observation of the Council of Ethics and requested for a re-assessment. The company highlighted some important issues. Firstly, they had hired an internationally renowned audit agency to certify their health and safety and employee practices at all their units, and the unit inspected was gold star rated by the agency. Secondly, they indicated that the company had to fire some employees as they had been involved in armed arson in the region due to some regional policy changes. Since they were not re-instated after their arrest, they were dissatisfied with the company and may have resorted to negative views during the interview with the Council of Ethics. Thirdly the company emphasised that the US and UK based brands for whom they manufactured clothes, had their own regular audits of the facilities and had never raised any concerns and had not reacted to the allegation by Council of Ethics. In fact, the company management showed the AMC appreciation and support emails from the brands. However, the company accepted that they had made a mistake by not allowing the Council to audit their facility and by deciding to not reply to the Council's Report as they took offence at the allegations. They had not considered that the issue would lead to such public scrutiny and their ouster from the fund. SBIFMPL then connected the company with the various rating agencies and requested the company to maintain a high level of labour friendly approach and related disclosures. The AMC also asked the company to consider allowing third parties to audit their facilities on request and respond to ESG related queries responsibly. SBIFMPL continues to engage with the company on ESG issues.

Case Study 5: Cement Company

A large Cement major from India, belonging to one of India's largest business groups has been added to the Climate Action 100+ list of high carbon emitters in 2020. SBIFMPL, being the largest asset manager in India and one of the most active participants of CA100+ from India, assumed the responsibility of being the lead engager with the company. While the company's ESG performance has improved over the years and the company has been recently included in the Dow Jones Sustainability Index, SBIFMPL found that the company's carbon emissions were not reducing enough to bring it at par with the global peers. In fact, despite being one of the largest Cement producers in India, the company's carbon emission profile lagged even the domestic peers in CO2 per ton cement numbers.

SBIFMPL engaged with the company thoroughly to understand the root of the problem. The company informed that it produces mainly Ordinary Portland Cement (OPC) which has a high emission portfolio as compared to the other blended varieties. Due to the sheer size of the production numbers, the emission profile of the company was high. SBIFMPL then deepened the engagement to find out how other cement majors are approaching this issue. One of the major issues that has emerged is that the strength of OPC is higher than the blended varieties, which is why most Government contracts that require cement for construction of bridges, flyovers, major roads etc, only ask for OPC. This deterrent can be countered only with sound research which proves the strength of blended cements and innovation which can develop new varieties stronger than OPC and lower in CO2 intensity. The other part of the problem is the very nature of cement production, which is hard to abate. New technologies like green hydrogen, carbon capture and storage etc. need capital and policy support to be viable and scalable. Return on capital needs to be proved for companies to take them up.

SBIFMPL did background research with 7 other cement majors in India to understand what the best practices were to reduce carbon emissions. It was found that renewable energy and Alternative Fuels and Raw Materials (AFR) were the lowest hanging fruits for carbon reduction for any cement company. Also, investments are being done for pilot projects in CCUS and green hydrogen with other partners in developed economies. R&D in new kinds of blended cements and clay calcined cements are also picking up and the whole ecosystem is increasingly moving towards more transparency and accountability by improving disclosures and taking stringent sustainability targets according to global standards. Indian Cement industry is amongst the best performing in the world in its carbon performance and most have aligned their reduction targets to Science based targets initiative (SBTi). All these findings were shared with the top management of the company in question and the management promised to revamp its measures. SBIFMPL continues to engage with the company on ESG issues.

Case Study 6: Transmission & Distribution Company

SBI Funds Management Private Limited firmly believes that as the largest asset manager in the country, the fund house has the responsibility to participate actively in the betterment of corporate governance in the country. Well governed companies will lay emphasis to taking decisions which will be neutral to all stakeholders, including minority shareholders. This is critical when it comes to decisions regards corporate actions which may have a bearing on the long-term financial sustainability of the company such as M&A. In instances where corporate decisions can be detrimental to the minority shareholders, SBI FMPL believes in a vigorous engagement with the corporate, including all potential stakeholders.

One instance in the last financial year was an action by a subsidiary of a global firm in India. The issue pertained to a potential divestment of one part of the business wherein there were multiple related party conflicts. SBIFMPL engaged with the company at multiple levels, both pre shareholder voting and post. SBIFMPL engaged with management prior to the voting to understand the transaction and impress upon them the concerns of minority shareholders. The AMC voted against the transaction at the shareholder meeting. Post the voting down by shareholders SBIFMPL continued to engage with the company, including putting out formal letters to the board of directors, and specifically to the independent directors. SBIFMPL's engagement resulted in better appreciation of the issues at hand by the corporate, and increased disclosures such as the independent valuation report taken for the transaction.

Case Study 7: Banking & Financial Services Company

In continuation with or focus on good governance, SBIFMPL engaged with one of India's largest banking & financial services company to understand the severity of certain governance lapses in the past, what were the lessons learnt, and how were internal processes and policies updated to prevent any future. The AMC also attempted to understand both domestic and global regulations and best practises.

In this endeavour, SBIFMPL engaged with the company, industry experts, as well as domestic and international peers. During its engagement with the said company, the AMC learnt that important functions and processes were strengthened to ensure past lapses would not recur. The functions and processes were separated and made independent to increase risk mitigation and accountability. However, SBIFMPL's engagements with industry experts and peers revealed that global practises are far stricter. The AMC also informed the concerned company of these best practises, which sooner or later would find their way into Indian regulations and the company should foresee and mitigate such risks. The Indian BFSI industry needs to adopt many of the global best practises for risk mitigation, accountability and ensure good governance.

Despite room for improvement, the AMC found that the company had made efforts to prevent similar risks and controversies in future. SBIFMPL also engaged with rating agencies to include their view on these issues. The international agency followed the stricter global practises when assessing the issue with the above company. At the same time, the AMC communicated its findings with regards to regulations, industry practises in India as well as the changes at the concerned company.

As a result of this exercise, the rating agency reassessed the issue to reduce the severity in their ESG rating. Furthermore, the AMC now has a better understanding of the governance issues in Indian context and how they stack up against global practices. SBIFMPL continues to engage with not only with the concerned company but also its Indian peers on best governance practises.

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

Compliance Status: Complied with

SBIFMPL exercises its voting responsibilities for its investments through the corporate proxy voting process available to its members. When voting proxies, SBIFMPL shall take utmost care to ensure that all decisions are made solely in the interests of the funds/unitholders and with the goal of maximizing the value of their investments. However, at no point in time does it intend to participate directly or indirectly in the management of the companies. The details of the voting process is available in the Proxy Voting Policy which available on SBIFMPL website.

Voting exercised along with the rationale supporting their voting decisions is disclosed on a quarterly basis within ten working days from the end of the quarter in the format prescribed by SEBI as amended from time to time. The AMC discloses the proxy voting exercised on an annual basis on the website of SBI Mutual fund along with due certification from the 'scrutinizer' in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof.

Table 1: Summary of Votes cast during the Financial Year 2020-21					
F.Y.	Quarter	Total no. of resolutions	Break-up of Vote decision		
			For	Against	Abstained
2020-21	Quarter 1 - April to June	129	103	9	17
2020-21	Quarter 2 - July to September	1339* -#	1253	38	29
2020-21	Quarter 3 - October to December	117	96	18	3
2020-21	Quarter 4 - January to March	89	72	13	4
Total		1674	1524	78	53
**** Resolution withdrawn by the Issuer Company.***					
-# Proxy Committee had decided to vote in favour of the resolutions, however due to technical/connectivity issue, SBIFMPL could not cast its vote.					

Table 2: Summary of "Against" Votes		
Issues	**No of cases**	**Percentage**
Articles of Association	1	1.28%
Appointment of auditors	2	2.56%
Director Election	43	55.13%
ESOPs and Director Compensation	16	20.51%
KMP Appointment	4	5.13%
Royalty issues	1	1.28%
Related Party Transactions	3	3.85%
Miscellaneous	8	10.26%

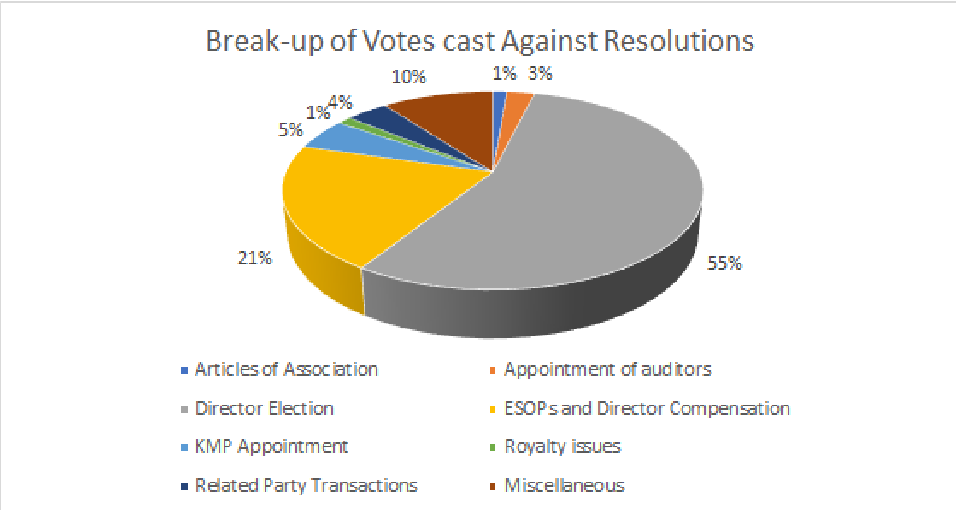

Figure 5: Break-up of topics on which votes were cast "Against" the resolutions

SBIFMPL abstained for 53 resolutions. 99% of the times the reason for abstaining was that the percentage of shareholding of SBIFMPL related to the company was very low. However, in 2021, SEBI has directed all AMCs to vote compulsorily in respect of certain resolutions specified in the SEBI Circular dated March 05, 2021 and SBIFMPL is following up the requirement going forward. More granular details on SBIFMPL's voting are accessible here: https://www.sbimf.com/en-us/voting-policy

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

Compliance Status: Complied with

Please refer to "Disclosures" section of SBIFMPL's website www.sbimf.com for Stewardship Disclosures.