STEWARDSHIP REPORT

2022-23

JUNE 1, 2023

SBI FUNDS MANAGEMENT LIMITED

Introduction

Welcome to SBIFML's Stewardship Report 2022-23, where we delve into the vital world of responsible investment and the crucial role stewardship plays within this framework. In an era of growing awareness and concern about environmental, social, and governance (ESG) factors, responsible investment has emerged as a powerful means of aligning financial goals with sustainable practices. Stewardship, as an integral component of responsible investment, provides investors with the opportunity to exercise active ownership, engage with companies, and leverage their voting rights to drive positive change.

The concept of responsible investment goes beyond the traditional focus on financial returns; it recognizes that businesses have broader responsibilities to society and the environment. Responsible investors seek to integrate ESG considerations into their investment decisions, aiming to generate both financial and societal value. By allocating capital to companies that demonstrate sound ESG practices, investors can encourage sustainable business models and contribute to a more inclusive and sustainable future.

At the heart of responsible investment lies the principle of stewardship. Stewardship entails the active and engaged management of investments, where investors adopt a long-term perspective and assume a fiduciary duty to protect and enhance the value of their assets. Stewards go beyond passive ownership; they actively monitor and influence the companies in which they invest, fostering accountability, transparency, and responsible practices.

Engagement and voting are two pivotal tools of active ownership. Engagement involves direct dialogue and collaboration between investors and companies to address ESG concerns, influence strategic decisions, and promote positive change. By engaging with company management, investors can encourage the adoption of sustainable practices, advocate for improved corporate governance, and foster better stakeholder relations. This active dialogue serves as a catalyst for positive transformation within companies and helps to align their practices with sustainable development objectives.

Voting, on the other hand, allows investors to exercise their rights as shareholders during corporate decision-making processes. By casting votes on matters such as board appointments, executive compensation, and related party transactions, investors can influence company behaviour and shape corporate practices. Voting acts as a tangible expression of investor values, providing an avenue for collective action and holding companies accountable for their actions.

In this stewardship report, we account for the stewardship activities undertaken in FY23 by SBIFML.

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. SEBI also circulated a Consultation Paper on ESG Disclosures, Rating and Investing in Feb 2023[1] which advocated for a separate section on Stewardship Activities performed under the ESG Fund. While this has not been notified under any law as on date, as a good practice, the stewardship activities carried out under the SBI Magnum Equity ESG Fund in 2022-23 are included in the last section of the Stewardship Report.

[1] https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html

SBI Funds Management Limited's (SBIFML/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 SBIFML, it is a core belief that a business run in the best interests of all stakeholders seldom fails to create lasting value for its investors. This responsibility of not trying to maximize short-term profitability but ensuring optimization of long-term return and risks is well elucidated in our 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 our clients' assets. This policy is applicable for Mutual Fund as well as AIF (Alternative Investment Fund) activities undertaken by SBI Funds Management 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 had 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 June 03 & June 06, 2022 respectively.

Our 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

SBIFML 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 (s) will be a permanent invitee to this committee.

SBIFML 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. SBIFML'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 to 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 selected 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

SBIFML 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 Chief Investment Officer (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 our engagements especially on ESG topics in Financial Year (FY) 2022-23:

SBIFML believes in being a steward for all its investee companies and nudge them towards better ESG disclosures as well as improving their initiatives year on year. SBIFML also believes that along with corporate engagements, interactions with other non-corporate stakeholders like regulators, investors, industry associations, NGOs, research organisation etc. are critical to creating the whole ecosystem around ESG as part of the AMC's fiduciary responsibility.

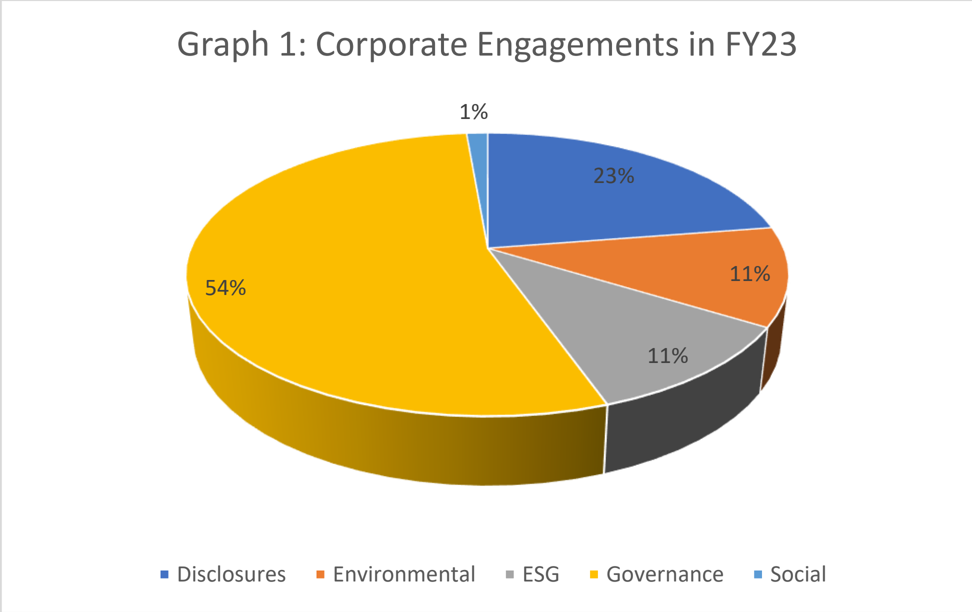
In FY23, SBIFML expand its reach and engaged with corporate and non-corporate stakeholders on a variety of ESG topics to gain more knowledge on ESG issues, to better incorporate the ESG lens on your investments and to make an impact on the ESG ecosystem at large.

Corporate Engagements

In FY23, SBIFML conducted 222 corporate engagements, out of which 120 (54%) were carried out during proxy voting, 50 (22.52%) were carried out to encourage investee companies to improve ESG disclosures, 25 (11.26%) were carried out on various environmental topics, 24 (10.81%) were carried out to discuss investee companies' existing or planned ESG initiatives (including all, environmental, social and governance related themes) and 3 (1.35%) engagements were done on social topics.

Table 1: Corporate Engagements in FY23

Categories of Corporate Engagement	Number of Corporate Engagements in FY23	Percentage of Corporate Engagements
Disclosures	50	22.52%
Environmental	25	11.26%
ESG	24	10.81%
Governance	120	54.05%
Social	3	1.35%
Grand Total	222	



Engagement Process and Levels:

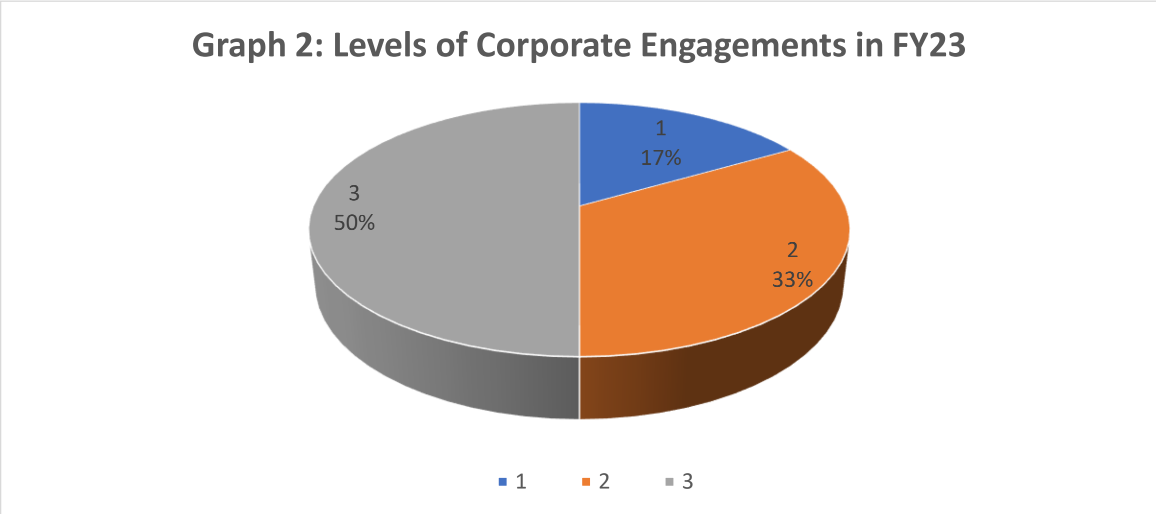
SBIFML prioritizes companies for engagement through the course of a financial year based on high shareholding, and low ESG scores. However, based on requests from investee companies and due to any concerns, that are noticed through the year, ad-hoc engagements are added. The AMC reaches out to the companies via letters, emails or queries using various forums and meetings to raise ESG related issues. At least one meeting with the company, where ESG issues are discussed as considered as level 1 engagements. If a second meeting is held to discuss the ESG issues further, it is considered as level 2 engagement. Materiality assessments where SBIFML participates are considered level 2 engagements as they help companies define their ESG strategies. Level 3 engagements are those in which more than two meetings have been held to discuss the ESG issues in depth, or an outcome has been achieved. These outcomes can vary from improvement in ESG ratings of the firm, increased disclosures by the firm, improved initiatives by the firm, voting by the AMC based on their ESG initiatives or divestment or reduction in position due to ESG issues etc.

Select case studies from the engagements are presented in the Stewardship Report. Engagements can be a multi-year process, therefore SBIFML team keeps engaging with companies continuously when objective-led engagements are undertaken. SBIFML team records and circulates meeting notes as it not only helps to understand the progress in an engagement but also helps during ESG Audits.

Out of the 222 corporate engagements carried out through the year, 81 engagements (36.49%) were level 1 engagements, 7 (3.15%) were level 2 and 134 (60.36%) were level 3 engagements.
Other than the 120 governance related engagements done with investee companies at the time of voting, there were 92 other ESG engagements carried out throughout the year.

Table 2: Levels of Corporate Engagements in FY23

Levels of Engagement	Number of Companies Engaged with	Percentage of Engagements
1	81	36.49%
2	7	3.15%
3	134	60.36%



Under corporate engagements, SBIFML focused on deepening the focus on identification of ESG related red flags within investee companies and also explored ways of effective communication and engagement with the companies. Much progress was made in ESG integration initiatives with wider adoption of internal ESG assessment framework for unlisted companies and new IPOs where ESG data is not published, nor the issuers are rated by external ESG ratings providers. The sheer number of new ESG assessments done on SBIFML's internal framework is testimony to the robust integration mechanism followed by the fund house since this research is done in-house by the financial and the ESG analysts together and is verified by the Head of Research and subsequently by CIO-Equities. This ESG assessment is made a part of the initiation report for each stock which is invested in for the first time. Following were the learnings from this exercise[2]:

- Engagement with investee companies is quite effective when the companies are in the fund-raise process or IPO process. At this time, prospective investors have the chance to ask for more ESG disclosures, better initiatives and reinforce the importance of ESG oriented practices as a pre-requisite by investors.

- Assessment of long ESG risks and management capability to handle such risks adds value to investment decision making as it helps screen out stocks where the gap of unmanaged risks is high or to identify companies where engagement can lead to improvements.

- In external ESG ratings, investors often face issues like no correlation between ratings provided by different ESG Rating Providers (ERPs) and contextualisation of domestic market. With the ESG assessment done internally, SBIFML is able to cover the issuers not rated by ERPs, engage at length with companies, encourage them towards improved ESG practices and disclosures and produce internal ratings that are comparable.

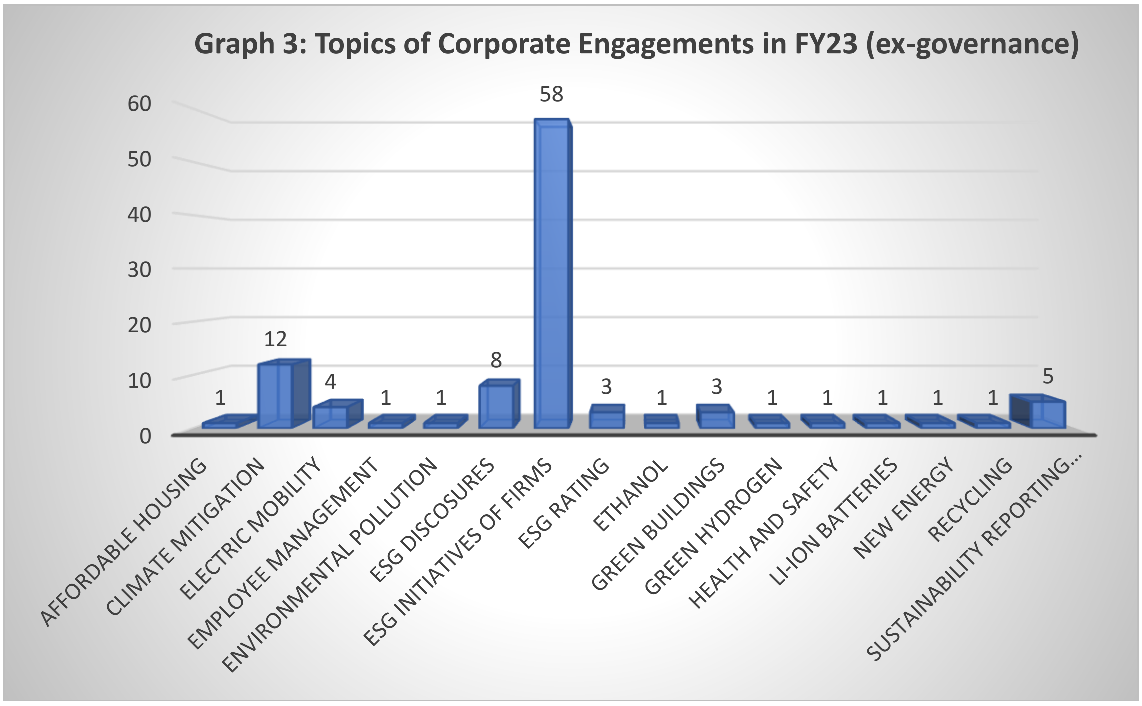
In FY23, SBIFML assessed 40 companies on its internal ESG assessment framework and used these ratings to inform the investment decisions. SBIFML counts these as a part of Level 1 engagements (under ESG Disclosures) as SBIFML reaches out to these companies for data on ESG actively. Moreover, governance discussions form an active part of such meetings. When Environmental and Social issues find prominence in the internal ESG assessments, these are pursued with renewed vigour with multiple meetings with the managements under level 1, 2 and 3 engagements as described above.

[2] The data presented in this report does not include unlisted companies assessed or engaged with for debt coverage of SBIFML, it includes only equity investments

Out of the total 222 corporate engagements, 120 were especially conducted with investee companies at the time of proxy voting. SBIFML believes that engagement at the time of voting is an extremely important tool to help companies improve their governance practices. We discuss the merits of such a strategy in the voting section. The rest 102 corporate engagements were conducted on a variety of topics ranging from improvement of general ESG disclosures to discussing current ESG initiatives and investor expectations around ESG initiatives, environmental themes like new energy, electric mobility, green hydrogen, climate mitigation and green buildings etc. to social issues like health and safety and affordable housing. Following table and graph provides an insight about the engagements carried out topic-wise.

Table 3: Topics of Corporate Engagement FY23 (ex-governance)

Topic of engagement	Number of engagements
Affordable Housing	1
Climate Mitigation	12
Electric Mobility	4
Employee Management	1
Environmental Pollution	1
ESG Disclosures	8
ESG Initiatives of firms	58
ESG Rating	3
Ethanol	1
Green Buildings	3
Green Hydrogen	1
Health and Safety	1
Li-ion Batteries	1
New energy	1
Recycling	1
Sustainability Reporting materiality	5



SBIFML remains a committed signatory to UNPRI and Climate Action 100+ and conducted multiple meetings with Indian companies identified as high carbon emitters from India by Climate Action 100+. SBIFML is the lead engaging-investor for 5 of the 6 such companies identified in India, and a collaborating engaging-investor for the 6th. The AMC's engagement with PSUs covered under CA100+ has especially been a highlight since significant progress has been made by PSUs in the context of climate mitigation initiatives this year. Two of these PSUs have declared net zero carbon targets for 2025 and 2038 and the third PSU has started on the journey to set its targets with the help of NITI Aayog.

A few case studies of corporate engagements have been presented in the annexure to this report titled "Case Studies".

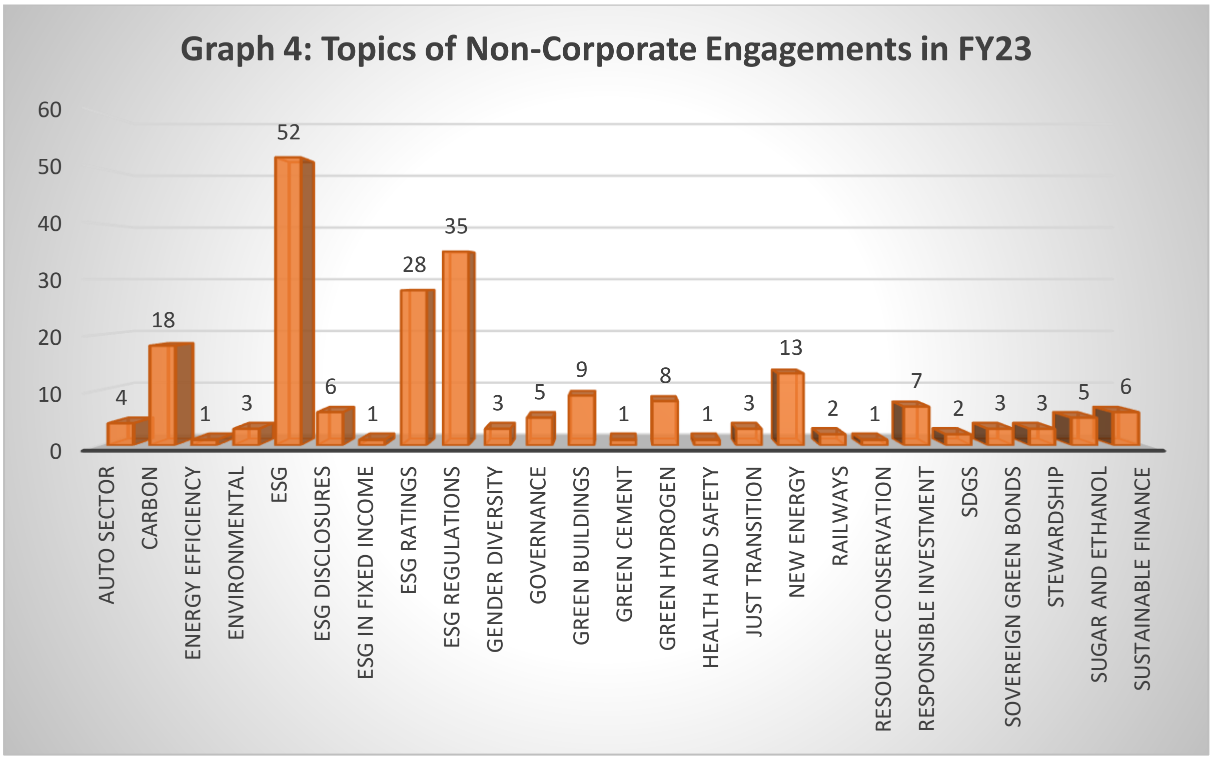
Non-Corporate Engagements

The Indian market is still warming to the idea of responsible investment. Regulatory frameworks are evolving rapidly, as is evident from the multitude of consultation papers published by SEBI and RBI in this financial year. In such a scenario, being the largest asset manager in India in mutual fund segment, SBIFML has the responsibility to help create an ecosystem where sustainable finance can flourish. The AMC became part of critical ESG taskforces and committees this year to contribute to the evolving ESG ecosystem like the SEBI ESG Advisory Committee, AMFI ESG Committee and FICCI ESG Committee to name a few.

Table 4: Topics of Non-Corporate Engagements in FY23

Topics of Non-Corporate Engagement in FY23	Number of Non-Corporate Engagements	% of Non-Corporate Engagements
Auto Sector	4	1.82%
Carbon	18	8.18%
Energy Efficiency	1	0.45%
Environmental	3	1.36%
ESG	52	23.64%
ESG Disclosures	6	2.73%
ESG in Fixed Income	1	0.45%
ESG Ratings	28	12.73%
ESG Regulations	35	15.91%
Gender Diversity	3	1.36%
Governance	5	2.27%
Green Buildings	9	4.09%
Green Cement	1	0.45%
Green Hydrogen	8	3.64%
Health and Safety	1	0.45%
Just Transition	3	1.36%
New Energy	13	5.91%
Railways	2	0.91%
Resource Conservation	1	0.45%
Responsible Investment	7	3.18%
SDGs	2	0.91%
Sovereign Green Bonds	3	1.36%

Stewardship	3	1.36%
Sugar and Ethanol	5	2.27%
Sustainable Finance	6	2.73%

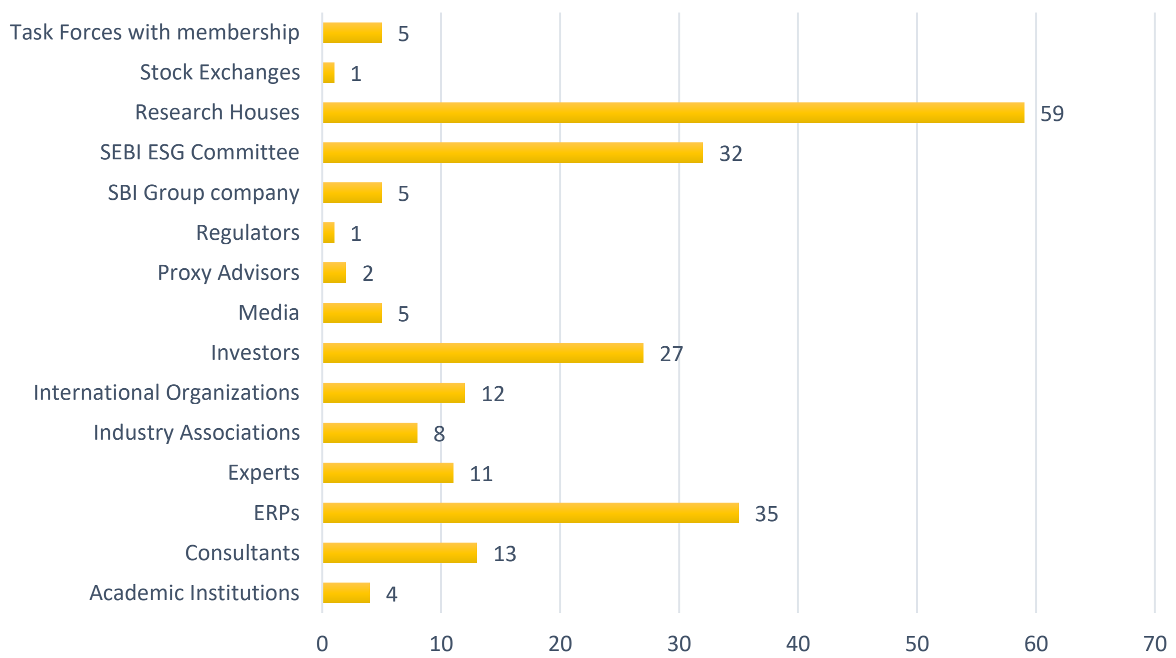


As visible from the table and the graph, maximum engagements were on the topics related to ESG in general, followed by discussions on ESG regulations in the country and in other markets and their implications on Indian markets, and then on ESG ratings. SEBI had released consultation papers on ESG Disclosures, Ratings and Investing and another one only on ESG Ratings this year. SEBI had also directed AMFI to empanel ESG Rating Providers in order to serve mutual fund market in the country. Since SBIFML was a part of all these forums, the number of engagements on these themes was high. Environmental topics like carbon and new energy remained high on SBIFML's agenda with newer themes like green buildings, green hydrogen and green cement finding place in non-corporate engagements in this financial year.

From the perspective of stakeholders with whom these engagements were conducted, the maximum was with research houses and their analysts where discussions on specific pieces of research were done on the topical issues like Li-ion batteries, EV penetration in India, ethanol blending in auto fuel etc., followed by ESG rating providers since AMFI's ERP empanelment process and each fund house's subsequent search for the right ERP to cater to their ESG funds, necessitated multiple interactions with them. This was followed by SBIFML's in-depth involvement with SEBI's ESG advisory Committee's work and in-depth discussions with other investors on various forums. The following table and graph represent the stakeholder groups engaged with in FY23.

Table 5: Engagements with Non-Corporate Stakeholders in FY23		
Types of Non-Corporate Stakeholders	**Number of engagements**	**Percentage of engagements**
Academic Institutions	4	1.82%
Consultants	13	5.91%
ERPs	35	15.91%
Experts	11	5.00%
Industry Associations	8	3.64%
International Organizations	12	5.45%
Investors	27	12.27%
Media	5	2.27%
Proxy Advisors	2	0.91%
Regulators	1	0.45%
SBI Group company	5	2.27%
SEBI ESG Committee	32	14.55%
Research Houses	59	26.82%
Stock Exchanges	1	0.45%
Task Forces with membership	5	2.27%

Graph 5: Engagements with Non-Corporate Stakeholders in FY23



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

Compliance Status: Complied with

SBIFML exercises its voting responsibilities for its investments through the corporate proxy voting policy available on our website. When voting proxies, SBIFML takes 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 are available in the Proxy Voting Policy which available on SBIFML 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. SBIFML takes Proxy Voting very seriously as it is considered an important engagement tool for the AMC.

In FY23, SBIFML Voted on 3,808 individual resolutions, out of which, 3,607 resolutions were voted in favour and 201 were voted against. None of the resolutions were abstained.

Table 6: Summary of Votes cast during the Financial Year 2022-23

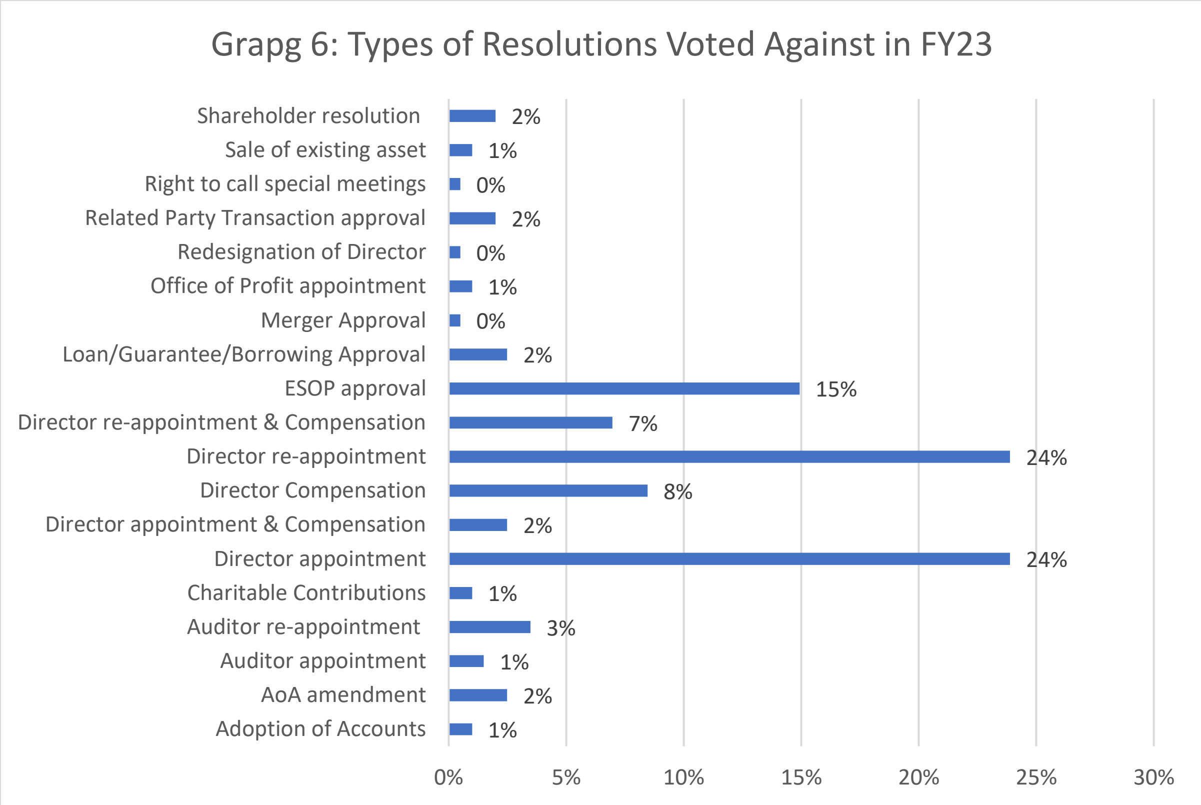
F.Y.	Quarter	Total no. of resolutions	Break-up of Vote decision		
			For	Against	Abstained
2022-23	Quarter 1 - April to June	693	651	42	0
2022-23	Quarter 2 - July to September	2416*	2324	88	0
2022-23	Quarter 3 - October to December	368	339	29	0
2022-23	Quarter 4 - January to March	336#	293	42	0

**4 Resolutions withdrawn by companies*

#1 Resolution required selection of one director from two proposed directors in two separate resolutions

Out of the 201 against votes, 24% each were related to appointment or re-appointment of Independent Directors, Non-executive Directors or Promoter Directors. 15% resolutions were related to approvals of ESOP/RSU schemes, 8% were singularly related to approval of director compensation and 7% were combined resolutions of director re-appointment and compensation. Rest of the against votes for adoption of accounts, amendments in articles of associations, auditor appointment, charitable contributions in excess of limits, loan/guarantees or borrowing limit approval, merger/sale approval, office of profit nominations, re-designation of directors, related party transactions and shareholder resolutions form 1-3% each of the against votes casted in FY23. These have been voted against since the premise did not fit within SBIFML's broad proxy voting framework and generally accepted good governance practices.

Table 7: Types of Resolutions voted against in FY23		
Type of resolutions	**Resolutions voted against**	**Percentage of resolutions voted against in each type**
Adoption of Accounts	2	1.00%
AoA amendment	5	2.49%
Auditor appointment	3	1.49%
Auditor re-appointment	7	3.48%
Charitable Contributions	2	1.00%
Director appointment	48	23.88%
Director appointment & Compensation	5	2.49%
Director Compensation	17	8.46%
Director re-appointment	48	23.88%
Director re-appointment & Compensation	14	6.97%
ESOP approval	30	14.93%
Loan/Guarantee/Borrowing Approval	5	2.49%
Merger Approval	1	0.50%
Office of Profit appointment	2	1.00%
Redesignation of Director	1	0.50%
Related Party Transaction approval	4	1.99%
Right to call special meetings	1	0.50%
Sale of existing asset	2	1.00%
Shareholder resolution	4	1.99%
Grand Total	201	

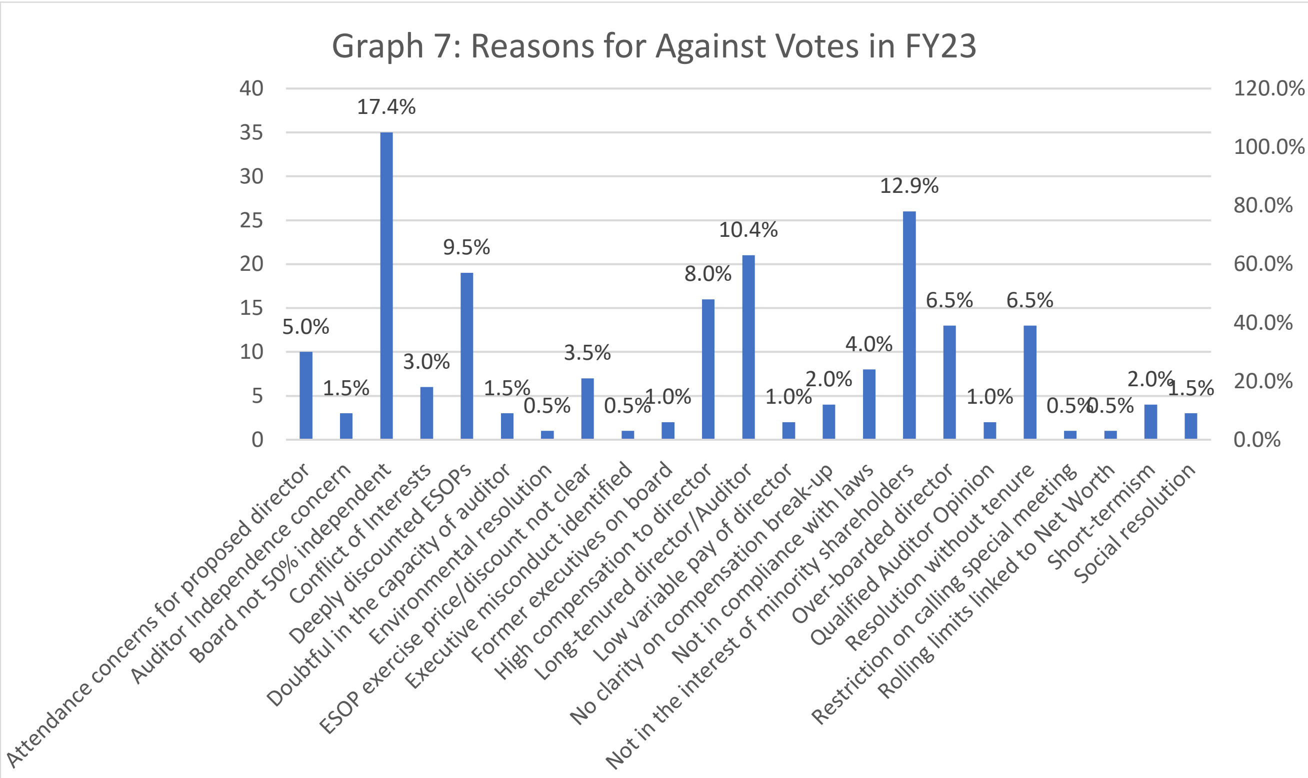


Of the 201 against votes casted by SBIFML in FY23, 17.4% were against appointment/re-appointment of promoter directors where boards were not 50% independent in numbers or in spirit. 12% were not found in favour with minority shareholder interests in general, 10.4% were voted against due to more than 10 years association of proposed director or auditors. We believe such long tenure compromises the independence of the director and the auditors. 9.5% were voted against since the ESOP/RSU schemes proposed were deeply discounted, and the performance parameters used to assess eligibility of employees were not disclosed. 8% were related to high compensation proposed for directors while 6.5% each were related to the proposed director sitting on too many boards and to resolutions without a tenure respectively. 5% were against the directors whose attendance on boards was less than 75% in three years, 3.5% were against the ESOP schemes where discount to market price was not clear and 3% were voted against due to conflict of interests in the resolutions presented. Rest were rejected due to auditor independence concerns, audit quality, executive misconduct, executive presence on boards, pay issues related to directors, auditor qualifications, related party transactions etc. The details are available in the following table and graph.

Table 8: Reasons for Against Votes in FY23

Reasons for against votes	% of against votes by reason
Attendance concerns for proposed director	5.0%
Auditor Independence concern	1.5%
Board not 50% independent	17.4%
Conflict of Interests	3.0%
Deeply discounted ESOPs	9.5%
Doubtful in the capacity of auditor	1.5%
Environmental resolution	0.5%
ESOP exercise price/discount not clear	3.5%

Executive misconduct identified	0.5%
Former executives on board	1.0%
High compensation to director	8.0%
Long-tenured director/Auditor	10.4%
Low variable pay of director	1.0%
No clarity on compensation break-up	2.0%
Not in compliance with laws	4.0%
Not in the interest of minority shareholders	12.9%
Over-boarded director	6.5%
Qualified Auditor Opinion	1.0%
Resolution without tenure	6.5%
Restriction on calling special meeting	0.5%
Rolling limits linked to Net Worth	0.5%
Short-termism	2.0%
Social resolution	1.5%



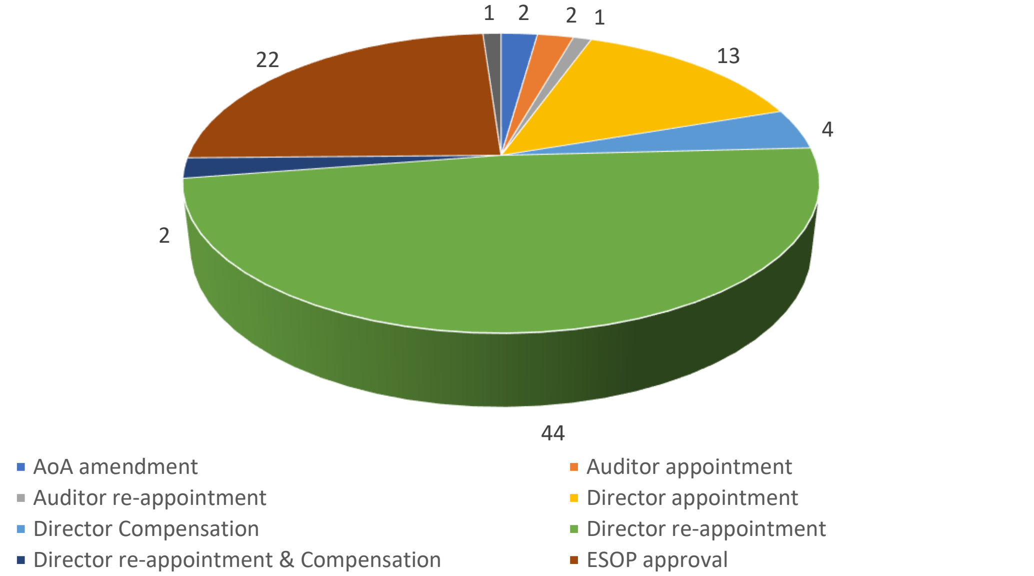
Graph 7: Reasons for Against Votes in FY23

While voting "against" resolutions is traditionally seen as a way of exercising the minority shareholders' rights when they do not agree with board decisions or wish to send a clear signal to the companies to improve their performance, at SBIFML, we believe that more than voting "against" alone, engagement and clarification with the companies at the time of voting, helps to create more immediate impact. This is why SBIFML engages with companies when the resolutions proposed by them are not in line with SBIFML's broad proxy voting framework. With such engagement, the AMC has been able to get numerous resolutions corrected and changed while helping companies in realising the investors expectations around governance. In FY23, SBIFML engaged with 91 companies where the resolutions did not seem aligned to SBIFML's understanding of good governance. However, the companies responded to the AMC's questions and either corrected or made commitments to bring about critical changes. SBIFML keeps track of such commitments for accountability and keeps engaging with companies to guide them further with their ESG journey. The following table and graph provide the types of resolutions which were voted in favour after rigorous engagement with the companies, which either led to greater clarity and understanding about the resolution, helping SBIFML to use its vote judiciously, or helped the company to make the required changes so as to change the resolution or the governance practice itself. In both the cases, we found that companies highly appreciated the engagement and forged a long-term relationship with the AMC for continued engagement. We also find that companies now pro-actively reach out to the AMC to seek guidance and discuss investors' opinions and expectations from upcoming policy changes that may require shareholder approvals.

Table 9: Types of Resolutions Voted in Favour with Engagement

Types of resolutions	Number of resolutions
AoA amendment	2
Auditor appointment	2
Auditor re-appointment	1
Director appointment	13
Director Compensation	4
Director re-appointment	44
Director re-appointment & Compensation	2
ESOP approval	22
Related Party Transaction approval	1
Grand Total	91

Graph 8: Types of Resolutions Voted in Favour with Engagement



Most of the engagement was carried out when Director Re-appointments were being proposed, especially where boards are not 50% independent in numbers and in spirit. SBIFML follows the Kotak Committee Guidelines in this respect and expects boards to be 50% independent. Similarly, there were high number of engagements carried out where proposed board members were over-boarded, had lesser attendance or had long associations with the company. Various companies wrote back to the

AMC with a commitment to improve board constitution in this direction, which is when the AMC decided to vote in favour. Similarly, AoA amendments and ESOP related resolutions saw in-depth engagement where either companies made changes in these proposals or clarified information via notices to the stock exchanges, due to which the AMC voted in favour. We expect such engagements to bring in more collaborative changes in the corporate governance practices in the country.

Stewardship Reporting of SBI Magnum Equity ESG Fund

SEBI had circulated a Consultation Paper on ESG Disclosures, Rating and Investing in Feb 2023[3] which advocated for a separate section on Stewardship Activities performed under the ESG Fund. While this has not been notified under any law as on date, as a good practice, the stewardship activities carried out under the SBI Magnum Equity ESG Fund in 2022-23 are included in this section of the Stewardship Report.

Corporate Engagements:

In FY23, SBIFML engaged with 8 companies under the ESG Fund (31% AUM) on ESG issues. These engagements are summarised in case studies as follows:

1) Case Study: A Housing Finance Company

In the engagement meeting with a large housing finance company, several key ESG points were discussed. The merger between the company and a bank in the group is expected to bring about positive outcomes, with no layoffs or office closures. The company acknowledges the potential impact of climate change on properties but mitigates risks by adhering to regulations and avoiding financing properties without proper approvals. They emphasize their commitment to affordable housing, particularly in rural areas, and offer flexible repayment schedules. Environmental and social analysis is conducted when certain thresholds are met, ensuring compliance with labor safety and environmental regulations. The company has also achieved a significant milestone by completing a large Syndicated Social Loan Facility. They provide concessional interest rates and specialized loans for women in the economically weaker section, with improved recovery rates. Overall, the company is focused on responsible lending practices and expanding its reach to previously inaccessible areas through the merger.

[3] https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html

2) Case Study: A Construction Company:

In the engagement meeting with a large construction company, SBIFML discussed key ESG points. The company has a strategic five-year plan focused on value accretive growth, exiting non-core businesses, developing innovative offerings for the energy transition, scaling up digital and e-commerce businesses, and prioritizing environmental, social, and governance (ESG) factors for sustainability and shareholder value creation. They have set targets to achieve water neutrality by 2035 and carbon net zero by 2040. The company is expanding its presence in the green hydrogen and energy storage sectors and has commissioned a green hydrogen plant. They aim to reduce the cost of green hydrogen production and offer EPC contracting services in the green hydrogen ecosystem. Railway electrification projects present significant opportunities for the company. However, the company faces challenges in achieving zero fatalities and improving health and safety statistics, particularly in cultural gaps related to safety practices in India. The company recognizes the need for penal provisions on subcontractors to enhance safety measures. The company also increasingly faces flak due to its exposure in defence. We note, however, that a large ESG rating provider has recently upgraded its rating.

3) Case Study: A large Bank:

In FY22 and FY23, both the regulators SEBI and RBI have put in the public domain consultation papers on ESG and Climate related disclosures respectively. The objective of this engagement was to check the readiness of the bank to adopt and disclose such elaborate information in the public domain. During a recent ESG engagement with a bank, several key points emerged. RBI, as a prudential regulator, and signatory to NGFS, has started focusing on climate-related risks, stress testing, and the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework. The bank believes that the regulators aim to build capacities within the banking system gradually. The regulators recognize that implementing these measures will take time, particularly considering the lack of a standardized taxonomy for green investments in India. Banks are employing a three-pronged approach to collect asset-level data, including utilizing publicly available disclosures, engaging with borrowers directly, and incorporating ESG ratings and third-party reports. The bank aligns its investments with the country-level target of achieving net-zero emissions by 2070 and evaluates climate risks, including physical and transition risks, considering borrowers' ability to continue operations and decarbonize. Data availability remains a challenge, but the institution maintains its lending activities across sectors while assessing climate risks. RBI expects large banks, initially, to assess their portfolios through a climate lens. This trial and testing phase will help RBI develop its own climate models and formulate guidelines on stress testing and scenario analysis tailored to Indian conditions. We found that while the bank has the intent to adopt TCFD based reporting, it will take some time to develop understanding, and for the guidelines and supporting ecosystem to evolve for the banks to adopt such disclosures.

Case Study 4: A leading IT company:

SBIFML was concerned about the industry-wide challenge of high attrition rates faced by the company and other IT majors in the country. This engagement was designed to focus on the challenge of attrition in IT sector and to understand the approach of IT companies in tackling this problem. The company acknowledged that attrition is a prevalent issue across the global industry and not limited to their organization alone. The pandemic-induced uncertainties had led to a temporary halt in recruitment, as companies focused on optimizing existing resources. However, with the return of normalcy, there was a rapid increase in demand, particularly for digital processes and remote access solutions. This surge necessitated the recruitment of skilled professionals, resulting in a trend of lateral hiring and subsequently contributing to the industry's higher attrition rates. While larger companies invest in training programs, smaller firms heavily rely on lateral recruitments, exacerbating the attrition problem. To address the supply-demand imbalance, the company has implemented measures to expand the talent pool. They have conducted significant recruitment drives, including the hiring of a substantial number of graduate trainees. Although attrition rates have witnessed a slight decline in the most recent quarter, on an annualized basis, they are still expected to remain relatively higher. The company highlighted that the fourth quarter typically experiences lower attrition rates. However, the higher attrition has led to increased costs for lateral hires. Additionally, the discussion touched upon the allocation of visas for working on client projects abroad. The company explained that the trend of localizing work and the increasing demand for local employment have resulted in a reduced number of visas issued. The company has been actively recruiting local talent to fulfil client requirements. Factors such as cultural familiarity, visa eligibility criteria, on-site training, and non-compete clauses were mentioned as contributors to the changes in visa allocation. To address attrition concerns, the company emphasized its commitment to employee well-being. They have provided support during the pandemic and maintained strong employee engagement. Initiatives aimed at enhancing employee value, career growth opportunities, and capacity building have been strengthened. The company has also adjusted salary structures, bonuses, and incentives to align with employees' skill sets. Furthermore, specific programs have been implemented to accelerate career progression. However, attrition continues to remain a problem in IT sector which will subside only gradually.

Case Study 5: A large Cement Company:

The company is amongst the largest cement producers in the country, and consequently also one of the largest carbon emitters. SBIFML expects higher investor and regulator scrutiny on high carbon emitters. This engagement was intended to discuss the company's carbon mitigation initiatives. This company is especially important since along with the ESG Fund, it also forms part of SBIFML's Climate Action 100+ list. While the company recognises and acknowledges the problems related to carbon emissions, it also expressed that internationally their comparison to companies from more developed nations was unwarranted as cement demand in India is slated to rise exponentially in the coming years, and absolute carbon reduction in cement industry may not be possible because of the very nature of cement generation process where the chemical reaction itself releases carbon dioxide, however the company is working to reduce the intensity of carbon emissions per ton of cement produced. The company is facing a reporting and rating fatigue due to excessive disclosure requirements from a variety of stakeholders and regulators. The company has got its carbon reduction targets verified by Science-Based Targets Initiative (SBTi), however SBTi has stopped accepting targets set on below 2-degree trajectory. There is an effort to convince SBTi to revise the requirement for a 1.5-degree trajectory. The company has publicly announced its Net Zero target for 2050. However, SBIFML encouraged the company to break down these targets to short-term, mid-term and long-term targets too, and create a clear roadmap to achieving them. The company plans to release a new sustainability report with detailed TCFD-based requirements. While they have mapped physical risks until 2100 and conducted transition risk studies on different scenarios, disclosing the financial implications of climate change remains a challenge.

Voting done under the SBI Magnum Equity ESG Fund:

There are 40 companies in the SBI Magnum Equity ESG Fund. Those 40 companies had 325 resolutions that came up for voting in FY23. Following table has the break-up of the votes based on our voting on them.

	No of resolution	Percentage of resolutions
Total Resolutions	**325**	
Against Votes	**5**	**2%**
For Votes	**320**	**98%**
Engagement	**8**	**2%**

- During, FY 2022-23, SBIFML voted on 325 resolutions for the 40 companies, invested under the SBI Magnum Equity ESG Fund
- Out of the total 325 resolutions, the AMC voted in favour on 320 resolutions (98% of total resolutions), voted against on 5 resolutions (2% of total resolutions) and engaged with the companies on 8 resolutions that were voted in favour (2% of total resolutions)
- Examples of voting:
    - SBIFML did not support the re-appointment of an independent director in one of the largest IT firms held under the ESG fund as the proposed independent director had been associated with the company for more than 10 years. The AMC believes that independence might get compromised due to long association with the company which may not align with the interest of minority shareholders.
    - As mentioned above, SBIFML believes in engaging with the company before taking a decision on its vote, as engagements have been a powerful tool to communicate concerns to the companies. With this context, the AMC had engaged with one of the largest FMCG companies and another large automotive company with respect to their director re-appointment, as their boards were not independent in spirit as per the AMC’s understanding. Post engagement, the companies were agreeable to aligning their boards as per guidance under the Kotak Committee recommendations.
    - We had also engaged with one of the retail companies with regards to its ESOPs resolution. SBIFML had noticed that there was lack of disclosures regarding the scheme and the scheme itself was deeply discounted. Post engagement, the company had clarified the kinds of performance parameters on the basis which the ESOPs would be vested to eligible employees.

Annexure: Stewardship Case Studies

Case Study 1: Ongoing Engagement Leading to ESG Rating Upgrade for a Newly Listed Chemical Company

Introduction:

In this case study, we highlight our ongoing engagement with a newly listed chemical company, which resulted in an upgrade of their Environmental, Social, and Governance (ESG) rating. Our engagement began during the initial public offering (IPO) stage, and we observed several instances of State Pollution Control Board show cause notices and an order from the National Green Tribunal (NGT) against the company regarding environmental violations. Holding in-depth meetings with the company, we discussed the causes of these actions and received their response, indicating that they had resolved all show cause notices and had successfully defended themselves in the NGT case. Recognizing the need for long-term engagement, we aimed to monitor if such instances would reoccur. We also aimed at helping them improve their ESG disclosures.

Engagement Process:

Our engagement with the chemical company began during the IPO phase, where we became aware of the State Pollution Control Board show cause notices and the NGT order for environmental violations. To gain a comprehensive understanding of these incidents, we conducted multiple in-depth meetings with the company's management and discussed the underlying causes. The company explained that their plants in Tamil Nadu were located in an area experiencing increased environmental activism, leading to heightened scrutiny and show cause notices. They assured us that all show cause notices had been resolved and the NGT case had been decided in their favour, with specific observations and suggestions for improvement. The company also assured us that they had made the necessary improvements within the stipulated timeframe.

Observation and Action:

While we observed that, to the best of our knowledge, no further actions had been taken against the company post-listing, we noted that an ESG rating agency had rated the company below our investment threshold. Recognizing the need to investigate further, we proactively reached out to the rating agency to understand the reasons behind the low rating. Through our dialogue, we discovered that the company's Sustainability Reports, which were shared with specific investors upon request, were not available on their website and had not been made accessible to rating agencies.

Bridging the Gap and Disclosure:

Realizing the importance of transparent and public disclosure for accurate ESG assessments, we collaborated with the company to bridge the gap. We insisted that they disclose their Sustainability Report in the public domain, ensuring accessibility to rating agencies and other stakeholders. The company agreed to our recommendation and promptly made their report available on their website.

ESG Rating Upgrade and Continued Engagement:

As a result of our efforts, the chemical company's ESG rating underwent an improvement, surpassing our investment threshold. This upgrade validated the positive impact of transparent disclosure and strengthened their overall ESG performance. Recognizing the need for ongoing support, we continue to engage with the company in a multi-year fashion. Our objective is to assist and guide them in their journey towards better ESG practices and disclosures. By providing ongoing support and maintaining an open dialogue, we aim to ensure the company's long-term success and sustainability.

Conclusion:

Our ongoing engagement with the newly listed chemical company demonstrates the power of long-term collaboration and proactive efforts to drive positive change in ESG practices. By engaging with the company during the IPO stage and addressing instances of environmental violations, we laid the foundation for continued support and guidance. Identifying a gap in public disclosure, we facilitated the availability of the company's Sustainability Report on their website, resulting in an improvement in their ESG rating. Our commitment to ongoing engagement reflects our dedication to fostering better ESG practices and supporting the company's journey towards sustainability and improved ESG performance.

Case study 2: Encouraging ESG Disclosures for an Electronic Manufacturing Services Firm
Introduction:

Introduction:

This case study focuses on our engagement with an electronic manufacturing services firm that lacked detailed Environmental, Social, and Governance (ESG) disclosures. Although the company displayed high potential, it lagged its market peers in terms of ESG reporting practices and disclosures. Given that the Business Responsibility and Sustainability Report (BRSR) reporting became mandatory in FY23, we recognized the potential compliance issues the company might face without dedicated efforts towards ESG reporting. Consequently, the company's ESG rating was relatively lower, primarily due to the lack of disclosures. We engaged with the company to understand their perspective on ESG and encouraged them to disclose relevant data.

Engagement Process:

Understanding the importance of ESG disclosures and the potential impact on the company's long-term sustainability and growth, we initiated an engagement process with the electronic manufacturing services firm. We sought to understand their current stance on ESG and identified the reasons behind their delayed efforts in adopting ESG reporting practices. By fostering an open and collaborative dialogue, we aimed to encourage the company to recognize the significance of ESG disclosures and their alignment with market expectations and regulatory requirements.

Landscape Study:

To guide the company in their journey towards improved ESG disclosures, we prepared a comprehensive landscape study. This study encompassed an analysis of material issues specific to the electronic manufacturing services industry. We highlighted how these material issues directly affected the company's operations, stakeholders, and long-term value creation. Furthermore, we conducted extensive research on their national and international peers, examining how these industry leaders approached material issues and reported on them in their ESG disclosures.

Guiding Efforts and Improving Disclosures:

Equipped with the insights gained from the landscape study, we provided the electronic manufacturing services firm with a detailed report. This report served as a guide, outlining the material issues, their potential impact on the company, and best practices in reporting and disclosure. By presenting real-life examples and case studies, we aimed to inspire the company and showcase the benefits of comprehensive and transparent ESG reporting. Our endeavour was to encourage the company to adopt improved disclosures that aligned with industry standards and expectations.

Conclusion:

Our engagement with the electronic manufacturing services firm highlighted the importance of ESG disclosures and their impact on the company's growth and compliance obligations. Recognizing the potential compliance issues due to the mandatory BRSR reporting, we engaged with the company to understand their views on ESG and encouraged them to disclose relevant data. Through a comprehensive landscape study, we provided insights into the material issues specific to their industry and how industry peers approached these issues through reporting. By sharing this information, we aimed to guide the company's efforts towards improving their ESG disclosures and aligning with industry best practices. As the company progresses on its ESG journey, we remain committed to supporting their ongoing efforts and helping them achieve sustainable growth through transparent and comprehensive ESG reporting.

Case Study 3: Enhancing ESG Practices for an Online Marketplace Firm

Introduction:

This case study delves into our engagement with an online marketplace firm in which we hold an active ownership position. The company had recently released its first integrated report in FY22, which included ESG disclosures. However, it received lower ESG ratings compared to certain larger Indian tech firms. Recognizing the company's intent and recognition to improve its ESG practices, we saw the importance of engaging deeply with them. Through calls and discussions, we understood their aspirations to enhance their practices and disclosures to align with the leading tech firms in the country.

Engagement Process:

As an active owner of the online marketplace firm, we recognized the significance of ESG practices and their impact on long-term value creation. Acknowledging the company's desire to improve its ESG ratings and align with industry leaders, we initiated a deeper engagement process. Through calls and conversations with the company's management, we gained insights into their objectives and challenges related to ESG disclosures. This engagement allowed us to establish a collaborative relationship and build a mutual understanding of the path forward.

Research and Benchmarking:

To support the company in its journey towards enhanced ESG practices, we conducted extensive research on the ESG disclosures and ratings of its peers, both in the domestic and international markets. By analyzing the ESG reports and ratings of these comparable firms, we identified common trends, best practices, and areas of improvement. This research enabled us to provide targeted guidance to the online marketplace firm, helping them align their practices with those of industry leaders.

Best Practices Document:

Armed with the knowledge gained from our research and benchmarking exercise, we developed a comprehensive best practices document for the company. This document outlined specific actions and recommendations to enhance their ESG disclosures and practices. It included guidance on areas such as environmental impact mitigation, employee well-being, data privacy and ethics. By sharing this tailored document, we aimed to provide the company with a roadmap to improve their ESG performance and align their ratings with their aspirations.

Appreciation and Continuous Improvement:

The online marketplace firm appreciated our efforts and recognized the value of the best practices document we provided. They expressed their commitment to explore the recommendations and improve their ESG disclosures in line with industry standards. The company recognized the importance of being at par with the leading tech firms in the country and abroad, both from a reputational standpoint and as a driver of sustainable growth. They viewed our engagement as a catalyst for their continuous improvement in ESG practices and ratings.

Conclusion:

Our engagement with the online marketplace firm, as an active owner, demonstrated our commitment to fostering better ESG practices and disclosures. By understanding the company's intent and aspirations, we conducted in-depth research and benchmarking to identify areas for improvement. The development of a detailed best practices document provided the company with actionable steps to enhance their ESG practices and align with industry leaders. The company appreciated our effort and is now focused on implementing the recommended practices to improve their ESG ratings. As their journey continues, we remain dedicated to supporting their progress and helping them achieve their ESG goals.

Case Study 4: Enhancing ESG Disclosures for a Growing Agro Chemicals Firm

Introduction:

In this case study, we explore our engagement with a growing agro-chemicals firm during their initial public offering (IPO) to emphasize the importance of Environmental, Social, and Governance (ESG) disclosures. Also, the recent mandate by the Securities and Exchange Board of India (SEBI) for the top 1000 listed companies to comply with mandatory ESG disclosures on the Business Responsibility and Sustainability Report (BRSR) framework necessitated that active investors engage with the company to apprise them of the new requirement. This became the objective of the engagement.

Engagement Process:

Our engagement commenced during the IPO stage when the agro-chemicals firm sought to understand the expectations of investors regarding ESG disclosures. Recognizing the significance of ESG factors in driving long-term value and risk management, we provided valuable guidance to the company. We leveraged our expertise in sustainability and conducted extensive research on the best practices adopted by their national and international peers.

Materiality Analysis and Best Practices Document: To gain a comprehensive understanding of the firm's ESG priorities, we identified the most material ESG issues relevant to the firm's operations and stakeholders' expectations. This analysis served as the foundation for developing a robust ESG disclosure strategy. Based on the insights from the materiality analysis, we took the opportunity to engage with the firm at length and provide them with tailored guidance on improving their ESG disclosures. Recognizing that ESG reporting standards are continuously evolving, we shared our knowledge of the latest regulatory requirements and industry best practices. This included recommendations on reporting frameworks, metrics, and indicators specific to the agro-chemicals sector. To facilitate their ESG disclosure journey, we prepared a comprehensive best practices document that outlined actionable steps and benchmarks for the firm to follow.

Continuing Partnership: As an active owner of the firm, we are committed to supporting them in their ongoing journey towards implementing robust ESG practices. We believe that sustained engagement is crucial to drive positive change and value creation. Our ongoing collaboration will involve monitoring their progress, providing periodic guidance and updates on emerging ESG trends, and assisting them in aligning with evolving regulatory frameworks.

Conclusion: Our engagement with the firm during their IPO provided a valuable opportunity to emphasize the importance of ESG disclosures. We shared our expertise and knowledge of industry best practices through a comprehensive best practices document, enabling the firm to enhance their ESG disclosures. This engagement marks the beginning of a continuing partnership, where we remain committed to supporting the firm in their journey towards implementing robust ESG practices and meeting regulatory requirements.

Case Study 5: ESG Rating Improvement for a Financial Services Company

Introduction:

At SBIFML, we have an internal ESG framework and review the ESG ratings report published by the rating providers, and we write back to them, if we feel that they have missed out anything while rating the company based on the public disclosures given by the company. There have been instances where rating providers did not consider, the fully disclosed information by the companies and SBIFM has helped the company's ESG rating improve by communicating the same to the rating providers.

Bridging the gap and disclosure:

With respect to this financial services company, we observed that the rating provider did not consider the issuances of green bond by the company and assessed it on non-material factors such as environmental credit policy related to agriculture, whereas company is in the business of financing power generation projects only. We had communicated to the rating providers, that the company had established a green bond framework in 2017 which was approved by Climate Bonds Initiative for funding renewable projects and raised money for the same. The company mentions the information related to Green Bonds in every annual report post the issuance. Furthermore, we informed them about the materiality of environmental factors that should be considered based on business of the company as against factors considered by the ESG rating agency like environmental credit policy related to agriculture etc.

Enhancement of ESG score:

After considering SBIFML inputs, the rating providers decided to add the above findings and did not assess the company on non-material factors as communicated to them. Post which, the rating provider had increased the company's scores under the Financing Environmental Impact parameter and the same was communicated to the company.

Conclusion:

By identifying gaps in the rating report, we strive to make improvements in the ESG rating of a company by communicating to the rating agencies, in turn helping the company getting an ESG rating which is an inclusive measure of their ESG actions. Further, we remain committed to enhance the ESG rating of the company by continuous engagement with them.

Case Study 6: Engagement with one of the largest Aluminium producers in the world

Introduction:

SBIFML had met the management of the company, to understand the ESG initiatives taken by the company. Further, we had also visited one of their largest aluminium plants in Odisha to understand the different stages for manufacturing an aluminium, process emissions and ground realty of implementation of ESG strategies.

Engagement:

Aluminium processing has one of the highest emission intensities amongst heavy emission industry, and it is one of the most crucial industries to address in order to contribute to India's decarbonisation goals. With that context, we engaged with the company and understood that the company has set a net-zero target by 2050, they are working with SBTi (Science-based target initiative) for approving their net-zero target. Other strategies include, setting an internal carbon price for their new and upcoming projects, significantly aiming to increase their energy consumption by usage of solar, wind and hydro, innovating product line in green aluminium and implementing methods for improving energy efficiency in their plants.

Plant Visit:

We visited the aluminium smelting plant to understand the smelting process. Currently, the unit is connected to a state grid which limits them to buy green power, but they will transition to the national grid which will help them in increase access to green power. While the unit aims to increase its green power consumption, 100% renewable energy consumption is not currently expected. The unit is exploring the use of pumped hydro to supplement their intermittent power supply.

Additionally, the unit is improving on increasing energy efficiency by employing copper technology in their smelters to reduce their energy consumption, thereby decreasing carbon emissions in the process. They have done a pilot project with Indian Railways for building an all-aluminium freight rail which has a lesser energy consumption as compared to steel. Further, we noted that the women participation was low in their workforce, on interaction we found that the company has significant targets and is implementing measures to increase women participation in their workforce.

Conclusion:

Our engagement with the aluminium company, as an active owner helped them to understand the investors perception on ESG strategies implemented by them. The plant visits to one of the company's units helped us to get more understanding of the implementation of ESG strategies at the ground level, understanding process emissions and helped us to get a more holistic approach towards company's future goals and strategies. We believe that such plants visits in future will help us in enhancing our ESG research.