

L&T FINANCIAL SERVICES

(“LTFS”)

Stewardship Code

Applicable to L&T Investment Management Limited

Version Control

Version	Author	Date	Outline of changes
1	Compliance	11-March-2020	Policy Drafted

This document has been reviewed by

Sr. No.	Name	Approved date
1	Investment Committee - Equity	12-March-2020

Sr. No.	Name	Approved date
1	Boards of AMC & Trustees	25-March-2020 / 28-March-2020

STEWARDSHIP CODE

Introduction

The purpose of this code is to describe the approach taken by L&T Investment Management Limited (LTIM) to stewardship and in particular how its policies and procedures meet the requirements of stewardship principles laid down vide SEBI circular CIR/CFD/CMD1/168/2019 dated 24th December 2019.

LTIM is the investment manager for the schemes of L&T Mutual Fund (LTMF). The purpose of the Stewardship Code is intended to protect investors' wealth and to protect the interest of the investors who have invested in the scheme of LTMF. Stewardship includes voting as well as monitoring and engaging with investee companies on matters such as strategy, performance, risk, capital structure, material environmental, social & Governance (ESG) opportunities and corporate governance related matters.

Compliance with the Stewardship Code

LTIM is committed to sound principles of corporate governance and efficient exercise of their governance responsibilities in the context of their activities as investment manager.

As an Institutional investor and responsible investment manager, LTIM fulfil its obligation towards protection of investors' interest by actively participating in voting on various management proposals of the Investee Companies in accordance with voting policy as available on its website (www.lfms.com).

The Principles as prescribed in the above circular state that institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities;
2. Have a clear policy on managing conflicts of interest in relation to stewardship, and this policy should be publicly disclosed;
3. Monitor the investee companies;
4. Clear policy on intervention in investee companies and collaboration with other institutional investors.
5. Have a clear policy on voting and disclosure of voting activity; and
6. Report periodically on their stewardship activities.

The following policies summarises the compliance with the requirements of the above principles:

The Principles

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Policy Overview

At LTIM, our core purpose is to take a stand for all the investors, treat them fairly, and give them an opportunity for wealth creation. To guide us in this mission, we rely on our core values of integrity, focus, and stewardship in every decision we make. Our long-term perspective and disciplined approach to investing puts our focus squarely on the investors and the sustainable value of their investments. We believe responsible investment is inherently part of LTIM's investment process and is consistent with our fiduciary duty to manage investments in the best interest of investors.

LTIM supports responsible investment and comply with the Stewardship responsibilities by:

- Voting in support of proxy proposals that, in our view, will improve our investors' long-term wealth.
- Advocating for responsible corporate governance, particularly with the companies in which we invest, as a driver of long-term value creation.
- Engaging on material environmental, social, and governance (ESG) opportunities or risks in investments.

Proxy voting

LTIM has implemented the policy on voting and its disclosure to effectively manage its corporate governance responsibilities. The most visible sign of LTIM's engaged ownership is proxy voting at shareholder meetings. We have an experienced group of analysts that evaluates proposals and casts our votes in accordance with our voting guidelines. Our guidelines are designed to promote long-term shareholder value by supporting good corporate governance practices. They frame the analysis of each proxy proposal, providing a basis for decision-making. In evaluating votes, the analyst team may consider information from many sources, including a company's management, shareholder groups, proxy voting advisors and various research and data resources, etc. We periodically review our voting guidelines to consider further developments in governance standards or risks to long-term shareholder value.

Advocating through engagement

We believe good corporate governance of the investee companies is key to maximize returns over time, and we view effective management of ESG risks as an integrated component of good corporate governance practices. Adequate analysis and efforts are put into discussions with the management of the investee companies. The level and frequency of these discussions may be influenced by the materiality of impact to our funds and the contentiousness of the issue. We believe these engagements, more so than voting, provide an opportunity to fully understand issues and target feedback and messaging to companies.

We believe in providing constructive input that will, in our view, may enable the companies to deliver sustainable value over the long term for all investors. We communicate directly with the management of the investee companies via letters, conference calls and in person meetings. Our key areas of focus for engagement include:

- A well-composed, independent, capable, and experienced board.
- Governance structures that empower shareholders.
- Independence of auditors
- Matters relating to ESG
- Remuneration of KMPs that incentivises long-term performance of the investee companies.

Furthermore, LTIM promotes good corporate governance and responsible investment through thoughtful participation in industry events and discussions where we can expand our advocacy and enhance our understanding of investment issues. Finally, we actively contribute to the development of regulatory policies to raise standards and promote best practices.

Ongoing review of policies and practices

We will continue to adapt and evolve our approach to responsible investment as we identify and evaluate new risks and issues affecting our investments. Our policy, guidelines and practices will be reviewed annually.

Principle 2: Institutional investors should have a clear policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

LTIM maintains a policy so that conflicts of interest in the proxy voting and corporate governance programme are addressed. A separation of proxy voting and sales functions along with documented guidelines are intended to eliminate potential conflicts in the proxy voting process. While most votes will be determined in accordance with the present policy on voting and disclosure there may be circumstances when analyst will refer proxy issues to the Conflict Management Committee (“the Committee”) for consideration. The analyst is expected to determine and address potential or actual conflicts of interest that may be presented by a particular proxy and escalate such potential or actual conflicts to the Committee.

The Constitution of the Committee shall be as under:

- Head- Equity/ Fund Manager
- CEO
- Compliance Officer
- Officer from Investment Operations

All the matters referred to the Committee and decisions of the Committee shall be recorded and preserved.

Possible Conflict/ Potential conflict Scenarios:

- Investment of group company in the schemes of LTMF
- Investee Company has significant investment (2% of AUM) in any equity scheme(s) of LTMF
- Investee Company is critical vendor/ service provider for LTIM
- Personal interest of employee/ family of employee in the business of the investee companies.
- Any other potential area of conflict

Principle 3: Institutional investors should monitor their investee companies.

LTIM engages with the boards and management of investee companies with the objective of maximising long-term investors’ value. Due to the constantly evolving nature of investee company practices and other circumstances, it is important to note that it may not be possible to identify or address pre-emptively all material or potential risks, although best endeavours will be exercised.

Key areas of monitoring include remuneration, independent and effective boards, environmental and operational risks, and shareholder rights.

Although not common, through our engagement with the investee companies, LTIM officer may come across price-sensitive information about an investee company that is not otherwise generally available to the public. LTIM employees are subject to SEBI Insider Trading Regulations and Employee dealing policy of LTIM. Any non-compliance with Insider

Trading regulations is reported to the Board of LTIM, Board of Trustees and SEBI. In case of violation of employee dealing policy, there will be consequences in the nature of termination, penalty, etc.

Areas of Monitoring

LTIM shall endeavour to monitor mainly the following aspects of the investee companies:

- Company strategy and performance - Operational, financial etc,
- Industry-level monitoring and possible impact on the investee companies
- Quality of company management, board, leadership etc.
- Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
- Risks, including Environmental, Social and Governance (ESG) risks
- Restructuring, merger, amalgamation, etc.
- Shareholders rights, their grievances etc.

How to monitor

LTIM may use all or any of the below to monitor the investee companies:

- Publicly available information.
- Management meetings.
- Research reports and industry information.
- Periodic engagement with Management through email/ calls/ meetings.

Threshold for monitoring and level of monitoring:

As a professional Investment Manager, LTIM will always endeavour to deliver top quartile performance of the schemes. For delivering such performance, it is required to monitor investee companies as a matter of routine process. However, LTIM will endeavour to have detailed monitoring for the aspects of the investee companies as mentioned above in the event of exposure to particular investee company is exceeding 3% of scheme AUM. LTIM will put its efforts for monitoring only where the investee company carries potential to deliver the long term returns. In other cases, LTIM will always look for an opportunity to exit.

Principle 4: Intervention in Investee Companies

Circumstances/ Areas in which intervention is essential

LTIM's primary responsibility is to safeguard the interest of the investors. Although, as mention in principle 1 and principle 3, there is regular engagement and monitoring of the investee companies, there may require active intervention in some compelling scenarios which may harm investors' interest. In such scenarios, being responsible institutional investor, LTIM will put its best endeavour to intervene in the investee companies and if require escalate the matter through trade body. In the following areas, LTIM may intervene with the investee companies if as per the assessment of analyst, it may lead to significant potential loss to the investors:

- Poor financial performance of the company,
- Corporate governance related practices
- Significant audit observation(s)
- Remuneration
- Strategy

- Failure to manage ESG risks,
- leadership issues,
- Material litigation which may adversely affect the valuation
- Any other matter which may have impact on going concern status of the investee companies

Threshold for intervention and level of intervention:

The above measure of intervention may be used only in the event of exposure to particular investee company is exceeding 3% of scheme AUM.

Pursuant to the above principle, LTIM will never intend to manage the affairs of a company or will not preclude a decision of LTIM to sell a holding when it is in the best interest of the unitholders.

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

The present policy of LTIM on voting and its disclosure is in compliance SEBI circular dated March 15, 2010 and March 24, 2014. The basic philosophy of LTIM is to support the investee companies' proposals if the same are not detrimental to investors' interest. The Investment Management team of LTIM shall analyse and evaluate each and every proposal and decide to vote in accordance with its merits. The policy is available on our website www.ltfs.com.

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

LTIM shall maintain the records of its stewardship activities. LTIM shall ensure the following reporting on its website and to the investors:

1. Disclosure of policy on voting and its disclosure on website.
2. Details of voting on quarterly basis on its website and annually in scheme's annual report.
3. Publication of this code on its website and in its implementation in the scheme's annual report.
4. Any change in the code or change in any policy pursuant to this code on its website and in scheme's annual report.