HDFC Pension Management Company Limited

Stewardship Policy Ver1.2

Document History:

S.N	Action	Function	Name	Approval Date
1.	Created By	Investment Front Office		16-Jul-2018
2.	Concurred By	Investment Mid & Back Office		16-Jul-2018
3.	Concurred By	Secretarial		16-Jul-2018

Change History:

S.N	Action	Description of Change	Approval Date
1.	New Policy	New Policy	16-Jul-2018
1.1	Updation	Updation of reporting format	22-Apr-2022
1.2	Updation	Updation of reporting requirements	18-Oct-2022

Content

1. **Introduction**
2. **Effective Date**
3. **Key Principles**
4. **Managing Conflicts of Interest**
5. **Monitoring of Investee Companies**
6. **Active intervention in the Investee companies**
7. **Collaboration with other Institutional Investor**
8. **Voting and disclosure of voting activity**
9. **Disclosures**

1.0 Introduction

HDFC Pension Management Company Limited ('HDFC Pension') is a Pension Fund registered with the Pension Fund Regulatory and Development Authority ('PFRDA'). HDFC Pension manages the pension contributions made by the subscribers under the National Pension System ('NPS') under the aegis of the Investment Management Agreement executed with the NPS Trust. For the purpose of managing the pension contributions, HDFC Pension invests on behalf of the NPS Trust in equity and debt securities issued by companies (Investee Company).

As a part of this activity, the investment team at HDFC Pension is expected to monitor and engage with the investee companies on issues like strategy, business performance, corporate governance, material environmental, social and governance (ESG) opportunities or risk, capital structure and other related issues in order that the best interest of the policy holders' are protected. The investment team is also expected to exercise the voting rights attached with these investments that are held as custodians of policyholders' savings, which is already been put into practice through the Proxy Voting policy, approved in past. This document sets out the principles and the policies to be followed by the investment function regarding the engagement with the management of the investee companies and disclosures relating thereto.

This policy will be referred to as the 'Stewardship Policy' for HDFC Pension.

2.0 Effective Date

This Policy will be effective from the date of its approval by the Investment Committee of the company and would be reviewed and updated on an annual basis or as and when there are regulatory changes.
Any material changes in the policy will also be approved by the Investment Committee and will be effective only post the approval of the changes.

3.0 Key Principles

- Oversight of Stewardship activities of HDFC Pension shall be undertaken by the Investment Committee ('the Committee') of HDFC Pension.

- The Investment Committee shall be responsible for monitoring implementation of the Stewardship Code duly approved by it.

- The Investment Committee will set a threshold level beyond which the exposure to the investee company will be deemed to be 'meaningful'. The threshold level will help in determining the level of engagement and intervention with the investee company. The Investment Committee can amend the threshold level based on experience.

- The investment team of HDFC Pension will be responsible for ongoing monitoring of the investee companies and will also be responsible for engaging with the managements of the investee companies. The investment team will seek guidance and approvals from the Investment Committee with respect to the engagement and intervention with the investee companies.

- The Investment Committee would decide whether it intends to use the services of any external service providers to support the investment team in discharging its stewardship responsibilities. In case the Investment Committee engages an external agency scope of services that it proposes to avail must be specified and the Investment team shall ensure that the stewardship responsibilities are exercised properly and diligently.

- Current investment team and any new joinees in the future may be trained, if required, on the various aspects of implementing the stewardship policy.

4.0 Managing Conflicts of Interest

HDFC Pension is part of a large and diversified financial services group with many affiliates and related companies. The voting for company resolutions may entail some instances of a conflict of interest between the interests of shareholders of HDFC Pension and the subscriber' interests. Some of the key instances are as under -

- The investee company is a customer of HDFC Pension or its sponsors or group companies or affiliates
- The investee company is a partner in some aspect of HDFC Pension's business
- Any of HDFC Pension's group companies or affiliates is a supplier or partner in some aspect of the investee company's business
- Key managerial personnel of HDFC Pension may have personal interests that conflict with their responsibility to act in the best interests of the Company. Personal interests include direct interests as well as those of family, friends, or other organizations a person may be involved with. A conflict of interest may be actual, potential or perceived and may be financial or non-financial.

HDFC Pension will manage conflicts of interest by requiring Investment Committee members and other personnel involved in implementing the stewardship code to:

- Avoid conflicts of interest where possible which will include
    - Limiting exposure to group companies as per PFRDA defined thresholds
    - Limiting investments by Investment team in stocks only after due permission which would check for any conflict of interest
    - Limiting voting function to be executed on the recommendation of the investment team
- Identify and disclose any conflicts of interest
- Carefully manage any conflicts of interest,
- Follow this policy and respond to any breaches, and
- Blanket bans on investment, as may be decided by the Investment Committee, wherever deemed necessary.

Board of Directors, Members of Investment Committee and Key Managerial personnel shall intimate their change of interest or concern in the company / companies, body corporate, firms or other

associations of individuals to HDFC Pension at least on a quarterly basis as per provisions of Section 184(1) and Rules 9(1) in Form MBP 1 of the Companies Act 2013.

Once the conflict of interest has been appropriately disclosed, the Investment Committee (excluding the member disclosing conflict of interest) will take the required decisions by acting as Conflict of Interest Committee. Minutes of meetings of any such Conflict of Interest Committee meetings will be maintained and publicly disclosed. HDFC Pension shall report in its compliance certificate how, if any, instances of actual / potential conflict of interest that have arisen during the period was managed.

As a rule, in all cases of conflicts of interests, the decisions of HDFC Pension will be based on the best interests of the subscribers.

5.0 Monitoring of Investee Companies

- Investment team will be responsible for monitoring all the companies in which HDFC Pension invests. There will be no threshold limit applicable for monitoring purposes.
- The monitoring will use publicly available information, management meetings, interaction with investee company boards, voting in board or shareholders meetings, sell side research and industry information to monitor these companies. While endeavor would be to ensure at least one meeting with the investee company in a year, there can be investee companies where the management is not accessible or not accessible at appropriate levels or cases where the investment team believes that there is no incremental information which is being provided by the management. In such cases, it is possible that the monitoring is through other sources.
- Monitoring will include but need not be restricted to strategy and business outlook, operation and financial performance, Industry analysis, management evaluation and corporate governance issues including board structure/diversity, related party transactions, handling of shareholder rights, their grievances, capital structure and key risk areas. Monitoring on areas like succession planning, remuneration, material environmental, social and governance (ESG) opportunities or risks issues will be on a best effort basis.
- Investment team would monitor that all the information sought for the purpose of monitoring the investee companies is done keeping in mind regulations on insider trading and would ensure the compliance of the regulations.
- HDFC Pension shall ensure compliance to Guidelines for Pension Funds on Self dealing, Front Running and Insider trading issued by PFRDA and also SEBI (Prohibitions of Insider trading) Regulations, 2015.
- HDFC Pension shall report the following as a part of Stewardship Policy and compliance certificate
    a) Procedures adopted to ensure Insider Trading Regulations are complied with and
    b) Instances of breach of Insider Trading regulations during the reporting period, if any.

6.0 Active intervention in the Investee companies

Concerns may arise with respect to the investee companies from time to time mainly on account of insufficient disclosures, non-compliance to regulations, performance parameters, governance issues, corporate plans/ strategy, CSR and environment and society related matters.

HDFC Pension may intervene on case-by-case basis if it feels that its intervention is required to protect value of its investment and discharging its stewardship responsibility.

Decision for intervention will be decided by Investment Team based on the following broad parameters -

- The investment in the company should be above the threshold level defined by the Investment Committee. However, the Investment Committee can decide to intervene in companies where the investment is below threshold level, depending on the seriousness of the issue.
- In case the investment is already earmarked for divestment or post planned divestment holding will be below threshold level, intervention may not be considered, unless there are other factors which warrant intervention.
- Seriousness of the issue at hand and if the matter has potential to vitiate overall corporate governance atmosphere. Such intervention will be in cases where one potentially harmful practice is being adopted by other corporates.

Step 1: Interaction

In such instances, HDFC Pension as an active shareholder will seek to engage with the company's management to discuss the concerns and apprehensions and actions to mitigate the concerns. The interactions must be held with the company personnel authorised and empowered to act on the areas of concerns.

Step 2: Reiteration

If there is no response from the management or there is any lack of follow-up action as promised despite the passage of a reasonable period of time, HDFC Pension may re-engage with the management to reiterate the conclusions or the plans of action decided at the prior meetings. A time bound plan to rectify or re-align the business practices or actions should be discussed and agreed upon.

Step 3: Escalation

In case there is no progress despite the first two steps, the matter will be discussed at the Investment Committee of HDFC Pension for further escalation to the Board of Directors of the investee company. If the Investment Committee decides to escalate, the communication to the Board of the investee company should elaborate on the concerns, the past requests for engagement with the management of the company, the past discussions and the agreed course of actions.

Step 4: Reporting to regulators/authorities

Only in exceptional cases, where the concerns relate to matters of public interest or public laws, if there is no response or no action taken by the investee company despite the escalations as mentioned earlier,

The Investment Committee may decide to report to the relevant regulator, authority or any Government body as may be required.

In all cases of engagement with the management and / or the Board of Directors of the investee company, all communications and discussions are to be conducted in private and confidential manner. The objective of the interactions is to play a constructive role in enhancing the value of the investment in the equity of the investee companies to benefit the subscribers of HDFC Pension.

7.0 Collaboration with other Institutional Investors

- In select cases, the nature of the engagement with the investee company management or the issues involved in resolutions that need to be voted upon by shareholders, may have an impact on all institutional shareholders of the investee company.
- In some cases, collaboration with other investors may be the most effective manner to engage with the investee companies. Collaborative approach is not only cost effective, it is efficient and potent as well and is likely to deliver the desired results.
- Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.

HDFC Pension may choose to engage with the investee company through consultations with the other institutional investors, with those whose interests are aligned with HDFC Pension, in order to have a wider group of investors representing a larger proportion of shareholders to engage with the company. HDFC Pension may also choose to involve industry associations or forums to engage with the investee company, if appropriate.

It is only when we believe collaborative action would be an effective means by which investors can exercise appropriate influence, we will willingly initiate action or support other investors' actions.

In taking collaborative action we would be cognizant of legal and regulatory requirements, including on market abuse, insider dealing and concerted party regulations.

HDFC Pension shall report the issues wherein the company has intervened and/or collaborated with other investors as a part of compliance certificate in the following format:

Issuer / Company Name	**Issues / Subject Matter**	**Engagement Lead / Co-ordinator**	**Held at**	**Engagement Outcome**

Examples of outcomes of engagement may include but are not limited to

- How engagement has been used to monitors the company
- Any actions or changes made by the issuers

- How outcomes of engagement have informed investment decisions (buy, sell & hold) &
- How outcomes of engagement have informed escalation.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

8.0 Voting and disclosure of voting activity

Reference may be made to the Proxy Voting policy approved by the Investment Committee of the Board of HDFC Pension. This policy lays down the rules related to voting on the issues related to the investee companies.

9.0 Disclosures

This policy, as amended from time to time will be disclosed on the website of the company along with other public disclosures. Any change or modification to the policy will also be disclosed at the time of updating the policy on the website.

The company shall ensure the upload of following reports on their website within one month of end of quarter / year,

- Quarterly report containing a summary of the voting decisions exercised along with a rationale
- Annual report on Summary of proxy voting undertaken by Pension fund
- Auditor's certification on voting activities
- Annual Report on implementation of every principle.

The company will also file a status report to PFRDA and NPS Trust on a quarterly basis, indicating the compliance with the principles laid down in this policy as per the Annexure A and Annexure B respectively. The status report will also be uploaded on the website on an annual basis. A disclosure of the voting decision shall be placed on the website of the Company and filed with PFRDA/ NPS Trust on a quarterly basis.

'Annexure A'

Quarterly status of compliance with Stewardship Principles as per the common stewardship code issued by the Authority dated May 4, 2018 or as may be amended from time to time

Name of Pension Fund: _____

Period of Report (FY): _____

Sr. No.	Particulars of Principles of Stewardship Code	Status of compliance (complied/ Not complied)	Relevant details like steps taken for formulation of a policy, date of formulating the policy, date of updation etc	Remarks/ reasons for deviation/non-compliance, if any
1	**Principle 1** Pension Fund has formulated a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.			
2	**Principle 2** Pension Fund has a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities as guided in the circular and publicly disclose it.			
3	**Principle 3** Pension Fund has formulated a policy on monitoring of the investee companies by ensuring different levels of monitoring in different investee companies and is engaged in monitoring of the investee companies on ongoing basis as guided in the circular.			

Sr. No.	Particulars of Principles of Stewardship Code	Status of compliance (complied/ Not complied)	Relevant details like steps taken for formulation of a policy, date of formulating the policy, date of updation etc	Remarks/ reasons for deviation/non-compliance, if any
4	**Principle 4** Pension Fund has a clear policy on intervention in their investee companies.			
5	**Principle 4** Pension Fund has a clear policy on collaboration with other institutional investors, where required, to preserve the interests of the ultimate investors, which should be disclosed.			
6	**Principle 5** Pension Fund has a clear policy on voting and disclosure of voting activity by taking their own voting decisions in the investee company after in depth analysis rather than blindly supporting the management decisions. PFRDA has already issued a circular dt 20.04.2017 on the matter for compliance.			
7	**Principle 6** Pension Fund has placed a report on implementation of every principle of common stewardship code on its website as per the periodicity decided by the Board of the Pension Fund.			

Sr. No.	Particulars of Principles of Stewardship Code	Status of compliance (complied/ Not complied)	Relevant details like steps taken for formulation of a policy, date of formulating the policy, date of updation etc	Remarks/ reasons for deviation/non-compliance, if any
	Different principles may be disclosed with different periodicities like voting may be disclosed on quarterly basis while implementation of conflict of interest may be disclosed annually and any updation of policy may be disclosed as and when done.			
8	**Principle 6** The Pension Fund has sent annual intimation to its clients/beneficiaries on implementation of every principle of common stewardship code.			

For _____

Company Secretary &
Compliance Officer

Date:
Place:

'Annexure B'

Quarterly Stewardship Report

For the Quarter Ended _____

To,
The Chief Executive Officer
NPS Trust
14th Floor, IFCI Tower,
61, Nehru Place, N. Delhi - 110019

Sir,

In my opinion and to the best of my information, I report the following in respect of the quarter mentioned above:

S.no.	Parameters	Details/Remarks
1.	Did any *conflict of interest situation occurred during the quarter? Provide list of conflict of interest situations as per your stewardship policy with details on conflicts which occurred during the quarter. *As per principle 2 of common stewardship code issued by PFRDA, institutional investor should have a policy on how they manage conflicts of interest situation in fulfilling their stewardship responsibilities and publicly disclose it. The policy has to address the identification of possible situations where conflict of interest may arise and procedure incase such a situation arises.	(Details provided in Annexure A)
2.	Did any **#**monitoring situation occurred during the quarter in respect of any investee company for Equity or Debt investments? Provide list of monitoring triggers as per your stewardship policy with details on triggers which occurred during the quarter. **#**As per principle 3 of common stewardship code issued by PFRDA, institutional investor should have a policy on continuous monitoring of their investee companies in respect of all aspects they consider important.	(Details provided in Annexure B)
3.	For the resolutions voted during thequarter have you abstained for any of the resolution except for conflict of interest resolutions like common directors, group company etc. If Yes, provide details of such resolutions with detailed rationale.	(Details provided in Annexure C)

_____
Authorised Signatory

Date: _____
Place:_____

Annex A-Details of Conflict of interest

S.no.	Conflict of interest (List of total conflicts as per policy)	Conflicts occurred during Quarter (Yes/No)	Officialsassociated with the conflicts occurred (Name & Designation)	Activities performed on occurrence of the conflict	Decision taken related to the officials and Decisioning authority	Decision Rationale

Annex B-Details of Monitoring situations

1. **Equity Investments**

S.no.	**Monitoring situations** **(List of total monitoring situations as per policy)**	**Monitoring situations occurred during the quarter** **(Yes/No)**	**Names of investee Companies where such monitoring situation occurred during the quarter**	**Activities performed on occurrence of such a situation** **(Call with management/Investor relationship manager etc.).**	**Decision taken related to investee company and Decisioning authority**	**Decision Rationale**

2. **Debt investments**

S.no.	**Monitoring situations** **(List of total monitoring situations as per policy)**	**Monitoring situations occurred during the quarter** **(Yes/No)**	**Names of investee Companies where such monitoring situation occurred during the quarter**	**Activities performed on occurrence of such a situation** **(Call with management/Investor relationship manager etc.).**	**Decision taken related to investee company and Decisioning authority**	**Decision Rationale**

Annex C-Resolutions where PFM has abstained from voting.

S.no.	Date of meeting	Name of the Investee Company	Details of Resolutions	Decisioning authority	Reason for Abstaining from voting

Reporting format for PFMs for Interventions and/or collaboration.

Issuer / Company Name	Issues / Subject Matter	Engagement Lead / Co-ordinator	Held at	Engagement Outcome