



## Stewardship Policy

**Owned by: Investment Front Office**

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### Version History

Release Date	Version	Owner	Revision Description	Approved By
09/08/2017	1.0	Investment Front Office	Initial version	Board of Directors / Investment Committee
23/07/2018	2.0	Investment Front Office	No change	Board of Directors / Investment Committee
15/05/2019	3.0	Investment Front Office	Minor changes	Board of Directors / Investment Committee
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21/05/2020	5.0	Investment Front Office	Regulatory changes	Board of Directors

## **Contents**

1. Introduction
2. Key Principles
3. Managing Conflicts of Interest
4. Monitoring of Investee Companies
5. Active intervention in an Investee Company
6. Collaboration with other Institutional Investors
7. Voting and disclosure of voting activity
  - 7.1 Guiding Principles for voting
  - 7.2 Key Proposals for voting and Guiding Principles
  - 7.3 Approvals
8. Reporting of Stewardship Activities
9. Operating framework for details

## **1. Introduction**

Stewardship responsibility of the Company, aims to promote the long-term success of our investee companies (as defined below) in such a way that the ultimate providers of capital who are our customers/ policyholders also prosper. Effective stewardship implementation benefits investee companies, insurers, investors, customers/ policyholders and enhances the quality of capital, debt and money markets.

Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited ('the Company') as a part of its regular business activities invests policyholders' money in equity and debt securities issued by companies ('Investee Company'). As a part of this activity, the investment team will monitor and engage with the Investee Companies on issues like strategy, business performance, risk, capital structure, corporate governance and other related issues including governance practices and managerial remuneration in order to protect the interest of the policyholders and the Company.

The Investment Front Office (Investment team) will exercise the voting rights on behalf of the Company, attached with the investments that are held as a custodian of policyholders' money. In consonance with the 'Guidelines on Stewardship for Insurers in India' issued by Insurance Regulatory and Development Authority of India ('IRDAI') and subsequent amendments made therein, if any, the Company has formulated this policy, which sets out the principles to be followed by the Investment team regarding engagement with the management of the Investee Companies, voting on resolutions pertaining to the Investee Companies, disclosures, reporting, etc relating thereto. This policy therefore, will be referred to as the 'Stewardship Policy' ('Policy') of the Company.

This Policy is effective from the date of its approval accorded by the Board of Directors ('Board') of the Company. Any changes in the Policy will also be approved by the Board and will be effective only post the approval of such changes.

This Stewardship Policy and any amendment thereto, shall be disclosed on the website of the Company. The Company will also file an Annual Certificate of Compliance approved by the Board of the Company to the Authority by 30<sup>th</sup> June of every year, duly certified by Chief Executive Officer and the Compliance Officer, in the format given in Annexure 'A' of Standard Operating Procedure (SOP) document confirming compliance with the principles laid down in this Policy. Non-compliance, if any, will also be reported along with the reasons/ justifications for the same.

## **2. Key Principles**

An oversight of the stewardship activities of the Company shall be undertaken by the Audit Committee, as per the guidelines issued by IRDAI. The Investment Committee ('the Committee') shall be responsible for implementation of the Policy.

- The Committee will set a threshold level beyond which, the exposure to the Investee Company will be deemed to be 'material'. The threshold level will help in determining the level of engagement and intervention with the Investee

Company. The Committee can amend the threshold level based on its experience.

- The Investment team 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 Committee with respect to intervention with the Investee Companies (if required) as per point 5 of this Policy. An appropriate operating framework / guidelines shall be put in place for such monitoring on an ongoing basis.
- The Company will refrain from nominating its representative on the board of an Investee Company based on its investments in the Investee Company, unless such investment is strategic in nature and/ or the Board decides that a nominee is warranted. The Committee, in that case, will recommend nomination of certain members on the board of Investee Company considering that there is no conflict of interest, to the Board. Once such approval is received, the Company will take up the matter with the Investee Company, for nomination of its representative to be inducted as a director on the board of the Investee Company. The person so nominated shall follow the code of conduct prescribed by the Company.
- The Company may use the services of external service providers such as institutional advisors. The scope of such services will purely be on advisory basis. However, the ultimate responsibility of discharging stewardship responsibilities will remain with the Company.

### **3. Managing Conflicts of Interest**

The Company is part of financial services groups. The voting resolutions may entail some instances of a conflict of interest between the interests of shareholders of the Company and the policyholders' interests.

Some of the key instances are as under:

- The Investee Company is a customer of the Company or its group companies or affiliates.
- The Investee Company is a partner in some aspect of the Company's business.
- Any of the Company's group companies or affiliates is a supplier or partner in some aspect of the Investee Company's business.
- Employees of the Company involved in decision making under this Policy may have any personal interests in the Investee Company that conflict with their responsibility to act in the best interests of the policyholders. Personal interests include direct interests such as financial, holding a position of power or owning stock 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 in nature. All employees will follow the Company's conflict of interest policy at all times.

The Company will manage conflicts of interest by requiring the Committee members and other personnel involved in implementing the Policy to adhere to the following:

- The shareholders and subsidiaries of the shareholders and any affiliates thereof may raise capital in securities markets from time to time. Any investment by the Company in securities issued by its shareholders and/ or any subsidiary of its shareholders and/ or any affiliates thereof will be subject to approval from the Committee. If any member of the Committee has direct interest in such investment proposal, then such interested member will not participate in evaluation of such investment proposal.
- Voting shall be strictly confined to various sector analysts within the Investment Team. It shall be the responsibility of respective sector analyst within the Investment Team to independently vote in case of resolutions pertaining to investee companies come up for voting. All voting taken during the quarter shall be presented to the Committee in its quarterly meeting for noting. Investment research team shall function independently of client relations and sales function of the Company (Insurer). Segregation of voting function and client relations/ sales functions shall be maintained all the times.
- Where a member of the Investment team has conflict of interest while voting in case of resolutions/proposals of an investee company, it should be addressed by following:
  - Identification and disclosure of such conflicts of interest by such Investment team member to the Chief Investment Officer (CIO) of the Company.
  - In case of resolutions/ proposals of investee companies wherein Investment team member has disclosed conflict of interest, CIO shall mitigate such conflict of interest by nominating some other members of the Investment team to vote who does not have conflict of Interest.
  - The resolutions/ proposals wherein conflict of Interest is established at Company level, shall be referred by the Company to the Committee and the Committee shall further be required to take decisions which shall include :
    - Referring such conflict of interest cases to the Audit Committee in case the circumstances require so
    - Putting a blanket ban on the said investment, if required
    - Maintaining minutes of decisions taken to address such conflict of interest

As a rule, in all cases of conflicts of interests the voting decisions of the Company will be based on the best interests of the policyholders.

#### **4. Monitoring of Investee Companies**

Investment team will be responsible for monitoring all the Investee Companies in which the Company invests in, irrespective of any threshold limit of its investment.

For effective monitoring of Investee Company, the Company will have a team of skilled and well trained (experienced) investment professionals with adequate amount of experience in various sectors.

On the job training of the Investment Team shall be ensured by way of attending various investor conferences, management interaction, company meetings and conference calls.

The monitoring will be based on publicly available information, management meetings, sell side research and industry information. While endeavor would be to ensure at least one meeting with an 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 like Bloomberg, filings with NSE and BSE, company websites etc.

Monitoring will include but need not be restricted to strategy and industry/ business outlook, financial performance, evaluation of management quality and leadership, managerial remuneration and corporate governance issues including shareholder rights and their grievances, capital structure, related party transactions and key risk including environmental, social and governance (ESG) areas. Monitoring in areas like succession planning, remuneration, ESG issues will be on a best effort basis.

Monitoring / management meeting will not include any activity resulting into seeking or obtaining an insider information from the investee company. To avoid any situation which leads to communication of insider trading information to the Company, Company will follow the relevant regulations on prohibition on insider trading as prescribed by Securities and Exchange Board of India in all such scenarios, as applicable, as an investor.

In the process of monitoring of Investee Company, if a situation may so arise where it is required to attend any shareholder/ other general meeting of the Investee Company, then in such cases, the Company shall represent itself at the meeting through the official so authorised by the Board, from time to time.

## **5. Active intervention in the Investee Company**

Concerns may arise with respect to the Investee Companies from time to time mainly on account of improper or insufficient disclosures, non-compliance to regulations, performance parameters, governance issues, corporate plans/ strategy, corporate social responsibility, environment and social matters.

The Company may intervene on a case-by-case basis if it feels that its intervention is required to protect value of its investment and for discharging its stewardship responsibility. Decision for intervention will be decided by the Committee based on the following broad parameters -

- The investment in the Investee Company should be material and above the threshold level as defined in the SOP document. However, the Committee can decide to intervene in

companies where the investment is not material and 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 (such as corporate governance, compliance issues etc.) 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.

The Company will implement following set of broad steps for intervention, however depending on seriousness of the issue some of these can be expedited to timely protect policyholders.

#### Step 1: Interaction

In such instances, the Company as an active shareholder will seek to engage with the Investee Company's management to discuss the concerns and apprehensions and actions to mitigate the concerns. The interactions must be held with the company personnel authorized 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, the Company 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 Committee for further escalation to the board of directors of the Investee Company. If the 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/ Statutory 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 an Investee Company despite the escalations as mentioned earlier, the Committee basis recommendation of Investment Team 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 an 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 securities and other financial instruments, if any of the Investee Companies to benefit the policyholders of the Company.

In case the Company's intervention is not successful (either fully or partially), it will not automatically result in the Company being required to exit its investment in the Investee Company.

## **6. Collaboration with other Institutional Investors**

- In select cases, the nature of the engagement with an Investee Company's 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 also efficient and potent and more 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 of investments.

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

It is only when Company will have reasons to believe that collaborative action would be an effective means by which investors can exercise appropriate influence, Company will willingly initiate action or support other investors' actions. In taking collaborative action the Company would be cognizant of legal and regulatory requirements, including on market abuse, insider dealing and concerted party regulations. This may also include interaction with the Investee Company through the insurance councils in case of any industry level issues.

It will be the decision of the Investment Committee to decide on the mechanism of intervention.

## **7. Voting and disclosure of voting activity**

### **7.1 Guiding Principles for voting**

The Company is entitled to attend and vote at a general meeting of a Investee Company, by show of hand or/and by poll or/and through online voting mechanism or/and postal ballot. The Investment team shall review all voting proposals including routine as well as non-routine items and shall ensure that non routine items like change in registered office from one state to another, merger and other corporate restructuring, changes in capital structure, stock options, appointment and removal of directors, etc. are examined in greater detail.

The Investment team may decide to vote (for or against), or to abstain from voting on proposals of the Investee Companies taking into account the possible implications of the voting or abstention and decisions shall be taken in the best interest of policyholders of the



Company. Any conflicts of interest will be managed as per the requirements laid down in the Policy. However, the Company should mandatorily undertake participation and voting on resolutions/proposals of Investee Companies under the following circumstances:

<b>Size of the Asset Under Management of the Company (Rs. Cr)</b>	<b>Compulsory voting required, if the Company's holding of the paid up capital of Investee Company (in percentage) is</b>
Up to 2,50,000	3% and above
Above 2,50,000	5% and above

In other cases, the Company may voluntarily participate and vote if such resolutions/proposals are considered significant and may have an impact on the value of investments of the Company.

In the process of monitoring of Investee Company, if a situation arise wherein the Company needs to exercise its complete voting rights, in such scenarios, Company shall not lend securities and may also recall already lent securities.

Audit Committee of the Company will monitor the voting mechanism. The votes favored/against should be disclosed publically on a quarterly basis after placing before the Audit Committee. The format for the disclosure is given in SOP.

## **7.2 Key Proposals for voting and Guiding Principles**

In general the matters coming up for voting by shareholders of Investee Companies are on the following points:

a) Corporate Governance matters (including changes in the state of registered office, merger, acquisition, other corporate restructuring and anti-takeover proposals)

Principle: All proposals will be reviewed to verify if they are value accretive to the shareholders of an Investee Company and in the best interests of the policyholders of the Company.

b) Changes in Capital Structure

Principle: The proposals for approval to alter the capital structure of the Investee Company, such as introduction of a new class of share, change in face value etc. will generally be supported. However, each proposal shall be evaluated on a case-to-case basis, to determine whether the proposed changes are in the best interest of the shareholders of an Investee Company and the policyholders of the Company.

c) Compensation and Benefits (including proposals on stock options to directors and executives)

Principle: The Company will support such resolution that incentivizes the Investee Company management towards long-term shareholder value creation.

d) Social and Corporate Social Responsibilities

Principle: The Company will support measures that have a positive impact on the economy, society and the environment.

e) Board of Directors

Principle: The Company will support the Investee Company in following good corporate governance norms. A largely independent board with members having the expertise and qualifications will be supported.

f) Other issues

i. Appointment and remuneration of auditors

ii. Any other issues that may affect the interests as an Investee Company shareholders.

Principle: Auditors' independence, role, proposals relating to non audit relationship, non audit fees and rotation to be considered while voting for auditors.

### **7.3 Approvals**

The Board will review and approve if any changes to the Stewardship Policy are required. The Audit Committee will have an oversight on the voting decisions of the Company.

## **8. Reporting of Stewardship Activities**

At a quarterly frequency, the Company will disclose all the activities undertaken by the Investment Team, as mandated by the Committee, in regard to implementing the Stewardship Policy and discharging its responsibilities, on its website, as part of public disclosures. The disclosures will also include information on voting by the Company at all the resolutions put forth by the Investee Companies for shareholders' approval.

In addition to above, any instances of non-compliance may be reported by the Investment Team and/or the Committee to the Audit Committee on a quarterly basis and the Audit Committee will maintain an effective oversight on the compliance of the Policy.

## **9. Operating framework for details**

The Committee shall put in place necessary SOP document basis which the investment team will take actions and decisions / in respect of various activities mentioned above.