

SBI Mutual Funds Commitment to ESG

How, why & who introduced you to ESG framework in investment?

As one of India's leading AMCs, we strive to be a leader in responsible investment and stewardship. Investment managers like us owe a fiduciary duty, first to their investors and then to the larger community they operate in, which can probably be best served not by trying to maximise short term profitability, but by ensuring the optimisation of long term return and risks. We have also witnessed many accidents faced by the investor globally and in India during the past decade. Large size failures like Enron, WorldCom, and Satyam closer home, which led to loss of major shareholder value, the value destruction in companies involved in mining, in many power companies post the cancellation of coal block allocation etc. convinced us that ESG factors are gaining importance. We felt that this influence could only rise in a world faced with growing environmental challenges and demanding stakeholders whose knowledge and awareness is rising with every passing year. In this situation, we felt that ESG compliance is becoming mandatory for ensuring prosperity of any company and success of its investors. Hence, we decided to integrate the framework in our investment decision making process a few years ago.

How easy or difficult it is to implement ESG framework when managing public money?

It has been quite challenging to implement the framework in India due to the lack of availability of data on performance of the companies on ESG parameters. However, with NVG SEE being made applicable to Top 100 companies by the stock exchanges a few years ago has ensured improvement in quality of sustainability data forthcoming from these companies. This universe is now being extended to Top 500 companies now which will make it easier to assess these companies on their ESG footprints. For the rest of the universe, accessing the ESG compliance data continues to be fairly challenging. The investors in India are yet to evolve to the level of awareness about ESG practices so as to pay for additional costs of generating this data and these costs of primary research would be very substantial. Hence, the asset managers are forced to use the secondary data available off the self on these parameters for their investible universe.

What role do Proxy advisory firms like play in Corporate Governance & protecting shareholders interest?

We diligently vote on every resolution of importance that our investee companies put forth to the shareholders. We were among the first AMCs to engage a professional proxy advisory firm and put an internal team in place exclusively responsible for voting in investee companies. Proxy Advisory firms play a useful role in helping investors to decide on voting strategy on resolutions put forth by the investee company management. They provide in depth analysis of all the resolutions backed by data on the industry peer comparison which helps us in taking decisions on our votes on each and every resolution.

SBI Mutual Fund's checklist for ESG framework?

SBI MF has a fairly comprehensive check list of over 50 parameters from across the Governance, Environmental & Social aspects of the company's management of its affairs, with the emphasis being in that sequence. Our 'ESG Framework' helps us delve into a company's management practices, culture and risk profile and helps us to question the management if the board's decisions are harmful to the long-term shareholder.

Can you explain with an example where you have followed ESG framework investing in listed companies?

Every new company we invest in is subjected to our comprehensive check with the help of ESG framework. The checklist forms an integral part of initiation of coverage in every company in our investible universe. Our team of research analysts also keenly watches for any major development in our investible universe and reviews our outlook on the company based on the same. We build our ESG themed portfolios offered to retail investors by avoiding investment in a list of restricted business segments.

Based on public information: SBI is among few mutual funds who take serious note on corporate governance like in the past you opposed Maruti's plans to set up a plant in Gujarat as a fully-owned arm of its Japanese partner Suzuki Motor Corporation. In the world of non-confront, where it is just easy to sell & move on, what drives such actions?

As we grow in size, it becomes increasingly difficult for a large institutional "relative return" investor like us to ignore a stock which has a large weight in the benchmark indices given the limited liquid investible universe of available to Indian Investors. We have found that managements often take decisions, which fare poorly on ESG parameters, without a due thought on these repercussions and if made to see the investor's point of view, are willing to modify the same. In this environment, it becomes desirable if not imperative to get into a dialogue with the companies to influence their behavior towards a better ESG compliance.

What is the future of ESG investment in India?

We see ESG compliance by the companies as their only way to ensure prosperity and perpetuity. Hence, we believe the long terms investors can ignore ESG footprints of their investee companies only at their peril.

Can you elaborate SBI Mutual Fund efforts in creating awareness about ESG and also adopting CFA Code of Conduct?

We are the only Mutual Fund in India to voluntarily embrace CFA Institute's Asset Manager Code of Conduct. We are a member of the IR (Integrated Reporting) Lab of CII (Confederation of Indian Industry). We are actively engaging with institutes which are at the forefront in the campaign to sensitize Indian Companies as well as Investors on the importance of ESG compliance for their long term success. Hence, we work very closely with these Institutions in their endeavours to promote ESG, which also helps us in continuously educating and updating ourselves on these issues. We launched 'SBI Growth With Values Portfolio' (focused on ESG and SRI principles), under our Portfolio Management Services in 2016. One of our flagship mutual fund scheme i.e. SBI Magnum Equity Fund would be re-positioned to SBI Magnum Equity ESG Fund (first ESG fund in Indian Mutual Fund Industry), following an ESG strategy.