

# Responsible Investment Policy

## I. Responsible Investment Approach

At SBI Funds Management Limited (SBIFML), our vision is to be a trusted and respected Asset Manager. Our mission is to be an ethical, responsive and innovative partner in investment solutions. As an asset manager, our fiduciary responsibilities towards our clients include long-term wealth creation and risk mitigation, and towards the community at large including matters of social, governance and environmental factors. At SBIFML, as part of our fiduciary responsibility, value system and risk management strategy, it is our core belief that a business, run in best interests of all stakeholders seldom fails to create a lasting value for its investors. This responsibility can be best served, not by trying to maximise short-term profitability, but by ensuring optimisation of long-term return and risks.

Our belief is that a Responsible Investment (RI) approach is perhaps the best way to ensure longer term wealth creation for our clients. We feel that the regulatory framework is evolving towards increasing transparency and increased efforts towards environmental sustainability. We expect corporations to improve their reporting practices in the coming years and go beyond their mandate to create positive value within the matrices of environment and society in which they operate. SBIFML actively encourages the integration of ESG criteria in the investment process.

## II. Responsible Investment Foundation

At SBIFML, we showcase our commitment to responsible investment paradigm by supporting various national and international initiatives that aspire for long term sustainability. Some of the initiatives are as follows:

- UN Principles for Responsible Investments (UNPRI): We are signatories to the UNPRI and are thus committed to integrating ESG factors into our investment analysis, decision-making processes and asset management practices.
- Climate Action 100+: We are signatories to the CA100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
- We were the first large mutual fund in India to voluntarily adopt CFA Institute's Asset Manager Code of Conduct.
- We are a part of the Green Finance Leaders' Consortium, a group that endeavours to aid the evolution of the green finance ecosystem in India.
- We have been an active member of the India Focus Group (CII <IR> Lab) to promote "Integrated Reporting" in India.
- We are supporters of the Paris Agreement and Taskforce on Climate Related Financial Disclosures (TCFD)
- In resonance with our efforts to integrate ESG within our reporting framework, we launched our first Integrated Report in September 2019. Our Integrated Reports can be accessed on our website.
- We were among the earliest asset managers to start voting on company resolutions and also to engage proxy advisory firms. Increasingly, our focus has been on active engagement with investee companies on ESG related issues.
- We launched our first ESG themed product in the country in the mutual fund space in 2018. We also have an ESG Fund in the PMS category.
- We were the first Asset Management Company in India to adopt a Stewardship Code in February 2020 and were awarded the ICGN Global Stewardship Champion Award in 2020 for our stewardship initiatives.

- We are a part of the India-UK Sustainable Finance Working Group and two sub-groups: Policy and Taxonomy; ESG and Capital Availability
- Our case study on ESG Integration in IPO companies was selected by UNPRI to be hosted on their website.
- We won the Best ESG initiative award on UBS Platforms for our voluntary ESG Audit in 2023.

### III. Responsible Investment Strategy

The Responsible Investment strategy of SBIFML is focused on three core areas:

- **Integration:** We seek to include material environmental, social and corporate governance (ESG) considerations within the investment decision making processes.
- **Engagement, voting and stewardship:** We wish to fulfil our obligations as an active owner and use our influence as a major institutional investor to promote good ESG practices.
- **Market transformation activities:** We engage with various stakeholders including policy makers, regulators, industry bodies, market participants and media to create a supportive ecosystem for responsible investing.

The responsible investment strategy applies to all markets and all asset classes. We have integrated responsible investment considerations in the investment appraisal for equities since 2011. Since April 2022, the ESG integration lens has been expanded to Fixed Income asset class too.

SBIFML has and may launch new ESG themed funds in the future. SEBI allows launching ESG Mutual Fund Schemes under multiple sub-categories. Information regarding the strategies applied on SBIFML's ESG Mutual Fund Schemes is available in the Scheme Information Documents (SIDs) of these schemes.

#### III a. ESG Integration in Investment Decisions

At SBIFML, we integrate ESG factors into our research and investment decision making process. ESG research focuses on the critical environmental, social and governance factors which can have a material impact on the long-term sustainable performance of the company. We firmly believe companies with improved management of ESG practices, can optimise their business models thereby increasing productivity, creating a distinct competitive advantage and increasing consumers' brand trust to deliver sustainable shareholder value. It also presents an avenue to effectively manage risks as well as take advantage of opportunities. This will not only unlock greater value for the company and its shareholders, but also contribute to the desirable social and environmental outcomes we believe in.

SBIFML has developed a fundamental, bottom-up investment framework to evaluate companies on ESG for its equity investments. ESG analysis is a mandatory component of our equity initiation reports. The first step involves a thorough financial analysis through SBIFML coverage. This is followed by an in-depth ESG analysis to determine final investment recommendations. We have a two-pronged approach for integrating ESG considerations in our equity portfolio:

- **Internal Framework for ESG integration:** We have formulated an internal framework to score the ESG performance of every company in our coverage. The methodology consists of scoring companies on their ESG practices on 50 parameters related to a firm's disclosures on environmental, social and governance initiatives and aims at assessing its compliance as well as pro-active readiness for ESG issues on a scale of 1-100. The scores are assigned based on data available through primary and secondary sources. Sources of information include engagement with companies; websites, Annual Reports, Business Responsibility Reports (BRRs), Sustainability

Reports and Integrated Reports of the companies; research materials published by sell-side, proxy voting or ESG rating agencies; third party databases like CDP, GRI etc. As mandated by SEBI, companies' Business Responsibility and Sustainability Reports (BRSRs) are also taken into account.

Material issues (key ESG factors) like carbon emissions, air emissions, waste management, water consumption, afforestation, effluent management and energy efficiency etc. are covered under the *environment* segment. The *social* aspect is assessed on the disclosures related to their relations with community and workforce, especially with reference to human rights, diversity, wage, health and safety issues. We also have a firm belief that good *governance* is the key to a sustainable organisation, and therefore, we evaluate the board composition, accounting and audit quality and disclosures, anti-corruption policies etc. to assess their governance practices. The guidelines for assessing and incorporating ESG factors in our assessment is available here: <https://www.sbimf.com/docs/default-source/esg-fund-documents/esg-guidelines-sbimf.pdf>

From April 2022, the same ESG integration lens has been applied on the fixed income universe where FI analysts and ESG analysts carry out ESG assessments of the issuers to integrate these in investment decisions. The internal ESG assessment framework of SBIFML is being used for the process along with the third party ESG Rating provider's ESG scores.

SBIFML does not have a fund house level list of sectoral exclusions. However, specific ESG Mutual Fund Schemes of SBIFML may practice exclusionary strategy. The strategy followed by the ESG Mutual Fund Schemes is available in the SIDs.

- External Agency rating on ESG performance:** We have partnered with reputed, SEBI Registered ERPs<sup>1</sup> who rate companies on the basis of their ESG risk profiles and management initiatives. Risk profiles are determined on the basis of their business and geographic locations. The rating takes into account all environmental, social and governance issues material to the company. This provides us in depth data to assess a company's performance year-on-year and across its sectoral peer groups. While SBIFML's internal framework is used for rating companies at the time of initiation, the ERP's ESG ratings are used for annual review and monitoring of ESG scores for all companies covered by the ERP under Equity coverage<sup>2</sup>. As on date, SBIFML covers only corporate fixed income with ESG ratings since the ERPs in the market do not cover unlisted issuers, especially sub-sovereign issuers like state issued loans or municipal bonds. We have started tracking ESG rating movements for corporate FI issuers from September 2023.
- Investment Process and Philosophy for ESG Mutual Fund Schemes:** The universe for the Fund is all listed entities as allowed under SEBI's circular no. SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated July 20, 2023. The investment objectives, strategy, benchmarks as well as the process of stock selection is available in the SIDs of the schemes.
- ESG Related Real World Outcomes for ESG Fund:** SBIFML's ESG Mutual Fund Schemes are designed to generate a beneficial ESG/sustainability impact alongside a financial return. As per SEBI's letter to AMFI on Disclosure Norms for ESG Mutual Fund Schemes dated February 8, 2022,

<sup>1</sup>SEBI had mandated use of Association of Mutual Funds in India (AMFI) empanelled ERPs for all MFs in Feb 2022.

Consecutively, in June 2023, SEBI has mandated SEBI registration of ERPs and all MFs are mandated to use services of SEBI registered ERPs. ERPs have 6 months for SEBI registration from June 2023. SBIFML continues to use AMFI empanelled ERP currently and will continue to use the same/change ERP subscription based on SEBI registration.

<sup>2</sup>While monthly monitoring is done to assess ESG rating movements, these scores/ratings from ERPs are annually updated and scores are considered the same for 12 months if the vendor doesn't provide the score in the monthly update.

the ESG related real world outcomes for ESG Mutual Fund Schemes will be communicated in the Annual Reports of the ESG Schemes.

- As an additional step, in accordance with SEBI's circular no. SEBI/HO/IMD/IMD-I – PoD1/P/CIR/2023/125 dated July 20, 2023, ESG Mutual Fund Schemes will invest at least 65% of its AUM in companies which are reporting on comprehensive BRSR and are also providing assurance on BRSR Core disclosures. The balance AUM of the scheme can be invested in companies having BRSR disclosures. This requirement is applicable from October 01, 2024. For the Fund's overseas securities, SBIFML will follow any global equivalent of the BRSR which has been specified by Association of Mutual Funds in India (AMFI).
- As per SEBI's letter to AMFI dated February 8, 2022, regarding Disclosure norms for ESG Mutual Fund Schemes and SEBI's circular no. SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated July 20, 2023, SBIFML will monitor and disclose the following in the scheme annual report/monthly portfolio disclosures/voting disclosures etc. (as applicable) going forward:
  - Security wise ESG scores with weighted average fund ESG score, link to companies' BRSRs and name of AMFI empanelled ERP – available in monthly disclosures
  - Security wise BRSR Core scores (as and when made available by SEBI Registered ERP) in monthly portfolio scores.
  - While voting in favour/against the companies covered under ESG scheme, disclosure regarding whether the resolution has or has not been supported due to any environmental, social or governance factors – applicable in March 2025
  - Separate disclosures in instances where voting approach of fund house and ESG scheme is different – applicable in March 2025
  - Annual fund manager commentary – with details on strategy, engagements, escalation, tracking of ESG ratings, case studies and further details of engagements carried out in a year etc. - from March 2024
- **Due Diligence on ESG Mutual Fund Schemes:** ESG Analysts review the portfolios of SBIFML's ESG Mutual Fund Schemes and identify the investible universe with respect to sectoral exclusions (if any as per Fund strategy), and the lowest rated/scored companies on the SEBI registered ERP's framework (if any as per Fund strategy). The list of investible universe along with the list of exclusions is circulated monthly to the Fund Managers and to the Risk Team. The Risk team then uses these lists to block any transactions in the excluded entities through the internal software.

While SBIFML conducts this due diligence to the best of its abilities, there are limitations in this process. There is a risk of green washing by the constituent companies. The data may also have differences in quality and quantity year-on-year which may hamper assessments. As the field is evolving fast, newer ESG factors may be added or deleted in our assessment framework leading to rating changes. ESG rating agencies also differ in their opinion on the performance of companies and may provide contrary views.

- **Assurance on ESG Scheme/Fund:** As per SEBI's circular no. SEBI/HO/IMD/IMD-I – PoD1/P/CIR/2023/125 dated July 20, 2023, SBIFML will obtain an independent reasonable assurance annually on the ESG Mutual Fund Schemes' portfolio being in compliance with the strategy and objective of the scheme. This disclosure will be made available in the Scheme Annual Report in FY24.
- **Certification by the Board of AMC:** In compliance with the same circular as stated above, SBIFML will conduct a comprehensive internal ESG audit of the ESG Mutual Fund Schemes which will

include verifying the Scheme Information Document (SID), Stewardship Reporting and Responsible Investment Policy with respect to the fund etc. to check whether the information provided in these documents is factual. Based on this audit, the board of directors of SBIFML will certify the compliance of SBIFML's ESG Mutual Fund Schemes with the regulatory requirements including disclosures in annual report of the scheme.

### III B. Engagement and Voting

Engagement and voting at listed companies have been core RI activities at SBIFML. As an institutional investor that takes its fiduciary duty and stewardship obligations seriously, SBIFML is an active owner and considers the effective management and board oversight of ESG issues to be integral to long-term performance. SBIFML monitors investee assets and actively encourages responsible environmental, social and corporate governance practices and behavior. In-depth details regarding our engagement policies including monitoring of investments, evaluation and intervention are available in our Stewardship Code. The Stewardship Code is available here: <https://www.sbimf.com/docs/default-source/disclosures/sbi-mutual-fund's-stewardship-code.pdf>

#### Engagement:

The investment team monitors and engages with the investee companies on ESG matters. Engagement can take many forms, such as audio/video or written communication with individual investee companies, participating in collaborative engagements or one-to-one meetings with the investee companies' management team.

The aims of individual engagements can also vary, including for example:

- Stewardship engagement to monitor assets and ensure appropriate ESG standards are being applied.
- Relationship engagement to ensure that SBIFML develops a strong relationship with management, as a long-term investor.
- Active engagement to encourage change in order to see material value enhancement or ESG risk reduction. Some of the issues that we focus during such dialogues are:
  - Improvement in ESG standards and disclosures
  - Importance of sustainability initiatives and transparency, with relevance to their business
  - Peer comparison and global/national positioning with respect to sectors
  - Evolving regulatory frameworks with an increased focus towards ESG

SBIFML undertakes all the above forms of engagement on a continuous basis and as appropriate. The engagements may be proactive or reactive. Engagements may be event driven or undertaken in response to specific opportunities such as collaborative initiatives led by other investors. SBIFML also prepares and provides compendiums of relevant global as well as domestic best practices to encourage learning and knowledge sharing, if and when required.

Engagement priorities are determined by the investment team considering our stakes in the companies as well as their weights in various benchmark indices. For example, the engagement is much more intense with companies where the cumulative shareholdings of portfolios managed by SBIFML of the company's equity is higher. Also, specific issue-based engagements are undertaken under various collaborative agreements that SBIFML is a part of or in cases where an issue is identified as material across the companies.

**Voting:**

At SBIFML, we consider shareholder voting to be an important shareholder right and a valuable tool in the engagement process and endeavour to vote on all board resolutions of investee companies which are critical for protecting and enhancing the investor's interests. While we use proxy voting advisory services from reputed service providers to help analyse company proxy materials and statements, all votes are confirmed in house by the analyst team, in discussion with the portfolio manager/s. An additional layer of discussion with the research analysts from ESG Team has been added to the voting process, where there are discrepancies between views of analysts and the proxy advisors. This has been done to ensure transparency, upkeep of good governance practices and to remove any personal bias from the analyst decisions. The final decision on voting is taken by the Proxy Voting Committee. We aim to vote in an informed and pragmatic manner, taking into consideration a company's unique circumstances. We take into consideration any additional information we may receive from the company before making a final decision.

The ESG engagement and Voting initiatives undertaken by the AMC are reported annually in the Stewardship Reports which are accessible here: <https://www.sbimf.com/esg-fund>. Since FY23, the engagements and voting done under the ESG Mutual Fund Schemes are also being reported in a separate section in the Stewardship report. These will be made available in the Funds' Scheme Annual Report too from FY24.

**III c. Public Policy & Market-wide Initiatives**

At SBIFML, we seek to influence and address thematic, sector and market related issues that could impact the performance of its investments. We actively engage with the regulators and other stakeholders on policy advocacy matters. We also actively contribute to consultations and participate in industry debates on these topics. We also participate in various forums regarding our experience of ESG integration and the roadmap ahead as a means to share knowledge as well as create awareness.

**IV. ESG specific resources****ESG Committee:**

SBIFML has set up an ESG committee comprised of both the Chief Investment Officers of Equity and / Fixed Income, Head of Research, Fund Managers of ESG Mutual Fund Schemes and dedicated analysts focusing on ESG. The investment universe is scanned and reviewed on a monthly basis by a dedicated ESG Committee. The ESG Committee also reviews and guides the team managing ESG compliant strategies in various aspects of ESG Integration and engagement with investee companies.

The monthly ESG Committee Review presentation is circulated to the Committee to take stock of the progress on ESG activities periodically. Following updates are provided in the periodic review presentations:

- Discussion on broader ESG trends, controversies and ESG performance of investee companies
- Tracking ESG scores and rating movements of companies in the investment universe
- Initiations and Corporate engagements on ESG
- Proxy Voting done monthly
- Progress on deliverables of international commitments like UNPRI and CA100+
- Tracking and reporting the progress on engagement initiatives with investee companies
- Discussion on new ESG trends/regulations in the country and future actions for the committee

**Proxy Voting Committee:**

The AMC has constituted a Proxy Voting Committee comprising of Senior Officials of the AMC for Proxy Voting. The Committee consists of Managing Director & Chief Executive Officer (MD&CEO), Deputy CEO, Chief Investment Officers (CIOs), Chief Risk Officer (CRO), Chief Compliance Officer & Company Secretary, Vice President of Investment Process and Risk Control (VP-IP&RC) and ESG Analyst.

The Committee has the final authority to decide upon exercise of votes. The Committee will meet and/or decide on the voting for the proposals by circulation at periodic intervals as and when required to consider proposals for exercise of votes.