STEWARDSHIP REPORT

2021-22

Stewardship Report 2021-22

SEBI vide its circular no. CIR/CFD/CMDI/168/2019 dated December 24, 2019 ("SEBI circular") has mandated all Mutual Funds and Alternative Investment Funds to frame Stewardship Code in relations to their investments in listed equities. The circular requires reporting of stewardship activities as prescribed in the circular.

SBI Funds Management Limited's (SBIFML / the AMC) vision is to be a trusted and respected Asset Manager by being an ethical, responsive and innovative partner in investment solutions. The AMC's fiduciary responsibilities towards its clients include long-term wealth creation, protection of interest of investors and risk mitigation; and towards the community at large include matters of social, governance and environmental factors.

At SBIFML, it is a core belief that a business run in best interests of all stakeholders seldom fails to create lasting value for its investors. This responsibility of not trying to maximize short-term profitability but ensuring optimization of long-term return and risks is well elucidated in our Responsible Investment Policy. The Stewardship Code is a natural extension of the AMC's responsibility to protect and enhance the long-term economic value of our clients' assets. This policy is applicable for Mutual Fund as well as AIF (Alternative Investment Fund) activities undertaken by SBI Funds Management Limited.

Principle 1 Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically

Compliance Status: Complied with

The Board of AMC and Trustee Company had approved the Stewardship Code on February 26, 2020. Further, an updated policy was reviewed and approved by the Board of AMC and Trustee Company at their meeting held on June 03 & June 06, 2022 respectively.

Our Stewardship Code may be accessed here:
https://www.sbimf.com/_catalogs/masterpage/assets/SBI%20Mutual%20Fund's%20Stewardship%20Code.pdf

Principle 2 Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Compliance Status: Complied with

SBIFML has designed the Policy for Management of Conflict of Interest to ensure that the interest of the client/beneficiary is placed before the interest of the AMC. A Committee comprising of Deputy CEO, Chief Risk Officer and Chief Compliance Officer has been constituted to deal with exceptional circumstances of conflict. The Chief Investment Officer (s) will be a permanent invitee to this committee.

SBIFML will identify actual or potential conflict of interest situations and shall manage them in line with the Policy. There was no significant instance of conflict of interest noted by during the period. SBIFML's dealings with investee companies which are a group entity have been carried out at arms-length basis and are in compliance with applicable laws and regulations.

Principle 3 Institutional investors should monitor their investee companies Compliance Status:

Compliance Status: Complied with

The Fund Management & Research Team (referred as investment team) is responsible for the monitoring of the investee companies' performance. The investment team continues to monitor each investee company. As a part of this process, the fund manager/analysts, where feasible, attend meetings/conference calls conducted by the management of the investee company. Fund Managers and analysts use publicly available information, sell side research and industry information and endeavour to engage with the investee companies at least once a year, through any means detailed above. The Investment Committee has reviewed the investee company monitoring and engagement activities for the said period.

Principle 4 Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.

Compliance Status: Complied with

SBIFML would intervene in its investee companies, on a case-to-case basis, wherever it deems necessary. The decision in this regard will be taken by the Committee consisting of Chief Investment Officer (CIO) - Equity, CIO - Fixed Income, respective Fund Managers(s), ESG analyst(s), Chief Risk Officer, Chief Compliance Officer or any other official(s) as invited.

Following are the details of our engagements especially on ESG topics in Financial Year (FY) 2021-22:

SBI Funds Management Limited (SBIFML / the AMC)) believes in being a steward for all its investee companies and nudge them towards better ESG disclosures as well as improving their initiatives year on year. SBIFML also believes that along with corporate engagements, interactions with other non-corporate stakeholders like regulators, investors, industry associations, NGOs, research organisation etc. are critical to creating the whole ecosystem around ESG as part of the AMC's fiduciary responsibility.

In FY22, SBIFML expand its reach and engaged with corporate and non-corporate stakeholders on a variety of ESG topics to gain more knowledge on ESG issues, to better incorporate the ESG lens on your investments and to make an impact on the ESG ecosystem at large.

Corporate Engagements

In FY22, SBIFML had a total of 224 corporate engagements with 176 companies. These include 62 (27.7%) management meetings while exploring investments in new companies and first-time interactions were focused on financial, governance and disclosure issues; 106 (47.3%) engagements were done during voting on the company resolutions with a focus on governance improvement and 56 (25%) engagements on other ESG issues. Of the 56 other ESG engagements, 23.2% were on ESG materiality and disclosures, 14.3% were on climate change, 10.7% were on green buildings, 7.1% each on new energy and ESG issues in banking industry and the rest varied between industry specific issues in auto, oil and gas and textile along with more common disclosures and governance issues etc.

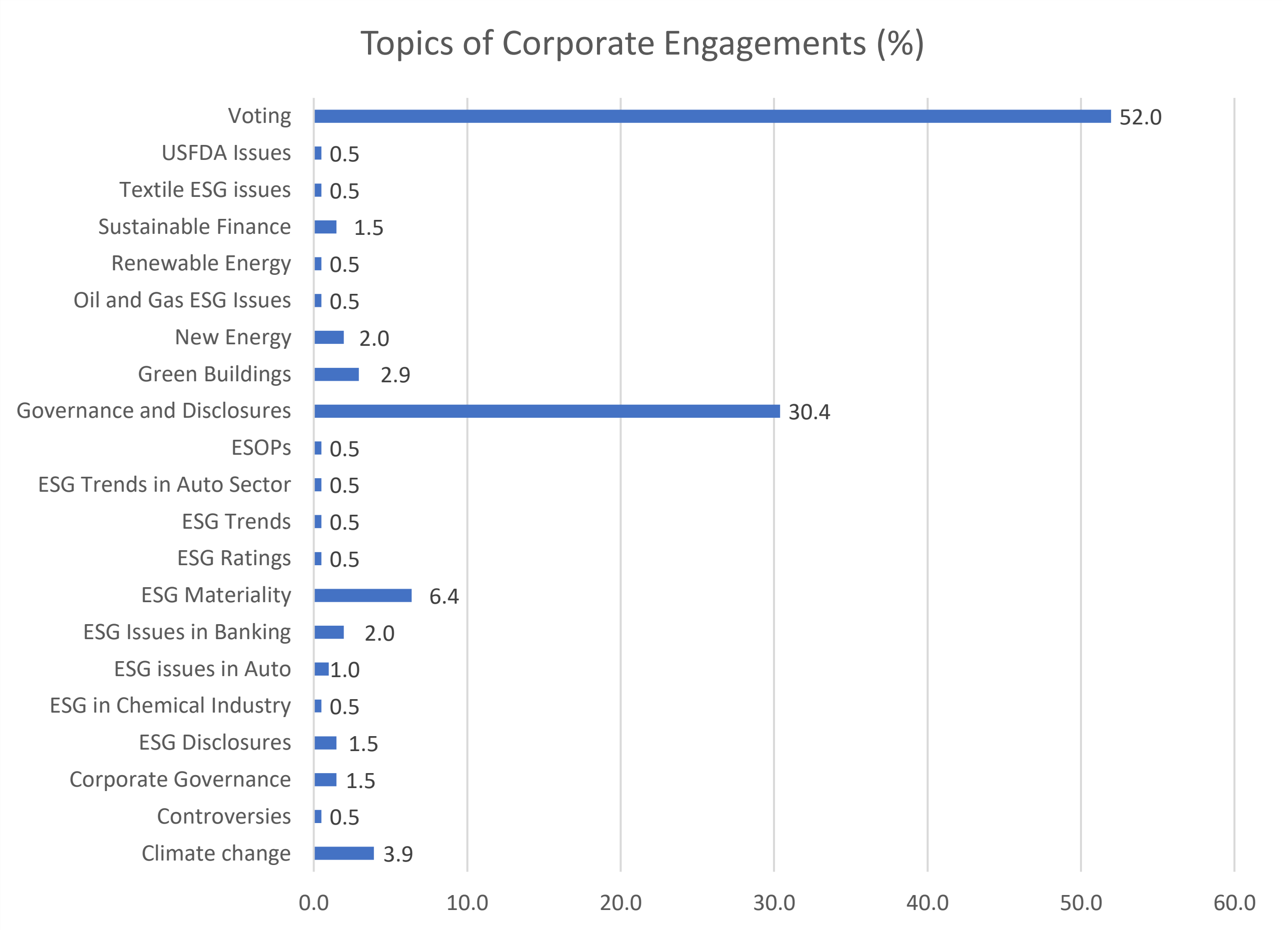

Figure 1: Topic-wise Corporate Engagements in FY22

Out of these 224 engagements, 36.6% were level 1 engagements where the companies had met the AMC once and took cognizance of the ESG concerns. These engagements were closed at the first meeting as either the company did not come back with answers, and the AMC is still pursuing them, or the issue raised was adequately addressed in the first meeting itself and did not require further exchange. 8.5% were level 2 engagements where either the companies reached out pro-actively to SBIFML for help on certain ESG issues and the AMC provided those inputs, or at least two meetings happened with companies where ESG issues were raised in the first one and the company came up with responses and action plan in the second meeting. 54.9% of the engagements were level 3 engagements where at least 3 interactions/meetings with the companies on specific ESG issues were held and the AMC helped these companies with landscape studies, peer assessments or market assessments to aid their smooth transition. In various cases, the level 3 engagements led to some outcomes like an investment/divestment decision, voting decision or a definite improvement in ESG disclosures/practices/scores.

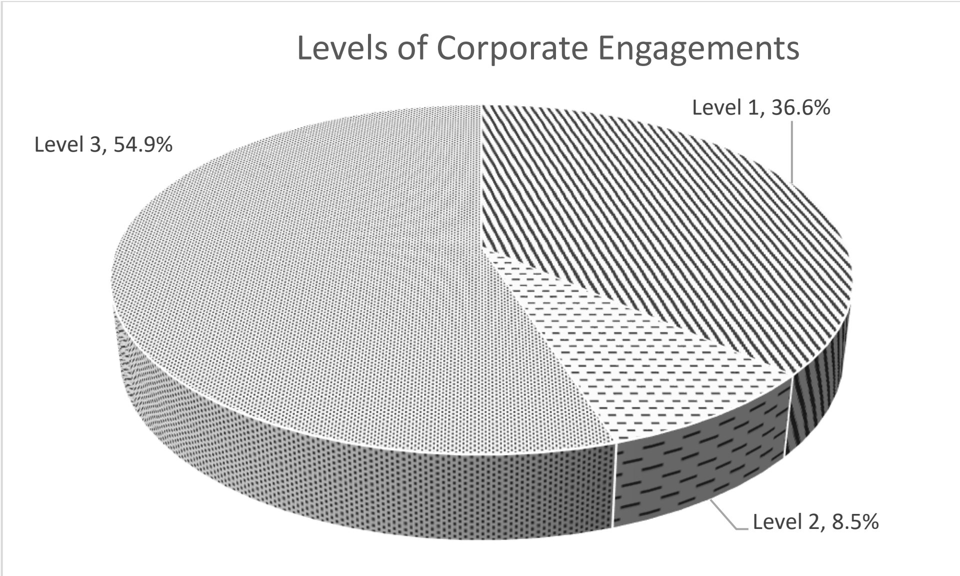

Figure 2: Percentage Distribution of Levels of Corporate Engagements in FY22

Under corporate engagements, this year SBIFML focused on deepening the focus on identification of ESG related red flags within investee companies and also explored ways of effective communication and engagement with the companies. Much progress was made in ESG integration initiatives with wider adoption of internal ESG assessment framework for unlisted companies and new IPOs where ESG data is not published, nor the issuers are rated by external ESG ratings providers. The sheer number of new ESG assessments done on SBIFML's internal framework is testimony to the robust integration mechanism followed by the fund house since this research is done in-house by the financial and the ESG analysts together and is verified by the Head of Research. This ESG assessment is made a part of the initiation report for each stock which is invested in for the first time. Following were the learnings from this exercise:

- Engagement with investee companies is quite effective when the companies are in the fund-raise process or IPO process. At this time, prospective investors have the chance to ask for more ESG disclosures, better initiatives and reinforce the importance of ESG oriented practices as a pre-requisite by investors

- Assessment of long ESG risks and management capability to handle such risks adds value to investment decision making as it helps screen out stocks where the gap of unmanaged risks is high or to identify companies where engagement can lead to improvements

- In external ESG ratings, investors often face issues like no correlation between ratings provided by different ESG Rating Providers (ERPs) and contextualisation of domestic market. With the ESG assessment done internally, SBIFML is able to cover the issuers not rated by ERPs, engage at length with companies, encourage them towards improved ESG practices and disclosures and produce internal ratings that are comparable

In FY22, SBIFML assessed 62 companies on its internal ESG assessment framework and used these ratings to inform the investment decisions. SBIFML counts these as a part of Level 1 engagements (under Governance and Disclosures) as SBIFML reaches out to these companies for data on ESG actively. Moreover, governance discussions form an active part of such meetings. When Environmental and Social issues find prominence in the internal ESG assessments, these are pursued with renewed vigour with multiple meetings with the managements under level 1, 2 and 3 engagements as described above.

Non-Corporate Engagements

The Indian market is still warming to the idea of responsible investment. Regulatory frameworks are evolving rapidly, and market actors are strongly reacting to negative ESG events. In such a scenario, being the largest asset manager in India in mutual fund segment, SBIFML has the responsibility to help create an ecosystem where sustainable finance can flourish.

In FY22, SBIFML had 136 engagements with non-corporate stakeholders on various ESG issues. Out of them 19.1% were on Business Responsibility and Sustainability Reporting (BRSR) and ESG Reporting, 14.7% were on ESG assessment methodologies, 10.3% each on ESG enhancement processes and Sustainable Finance, 8.8% on ESG trends and the rest varied from just transition, corporate governance, climate change, Taskforce for Climate-Related Financial Disclosures (TCFD) disclosures and industry specific discussions.

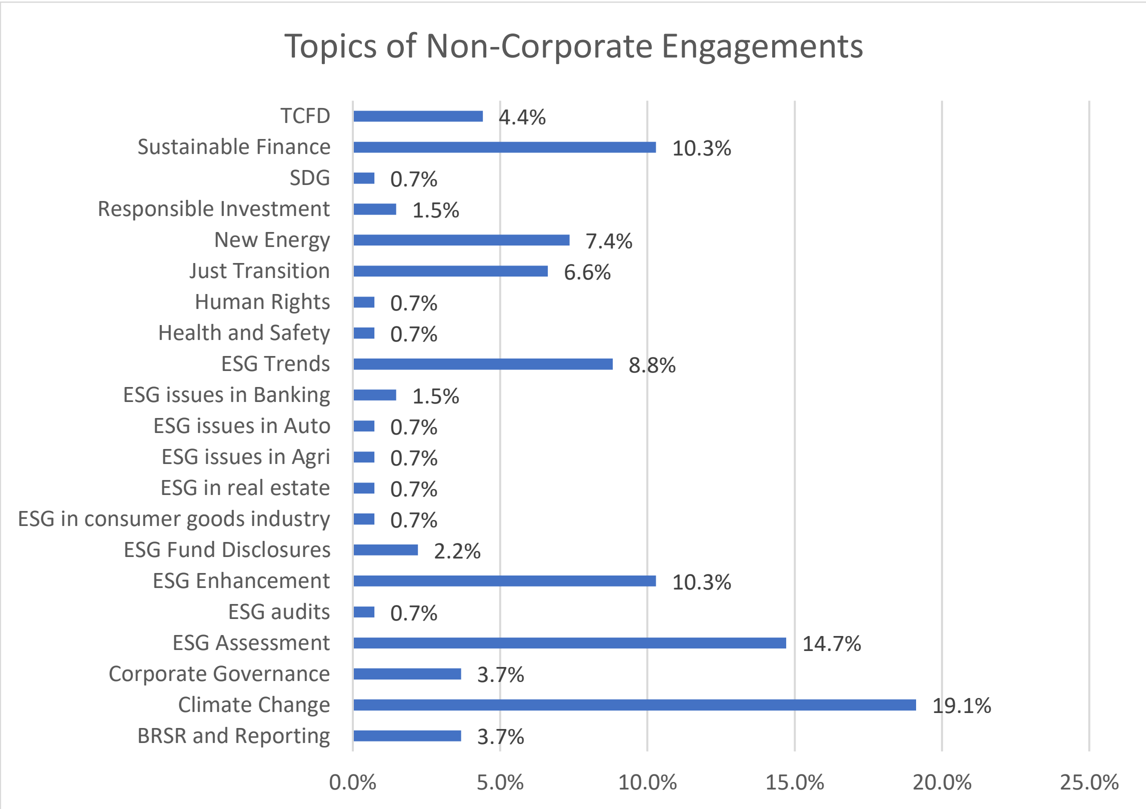

Figure 3: Topics explored in Non-Corporate Engagements in FY22

SBIFML also engaged with a breadth of non-corporate stakeholders since the AMC wishes to actively participate in the creation of an ESG oriented ecosystem in the country. Of the 136 non-corporate engagements, 34.6% were with various research organisations, 14.7% were with investor associations like UNPRI and CA100+, 11% were with other investors, 9.6% were with the various working groups that SBIFML is a part of (example: India-UK Sustainable Finance Working Group, UNPRI Just Transition Subgroup etc.), 8.8% were with various national and international ESG rating providers (ERPs), 6.6% were with the regulator (mainly SEBI) and the rest varied from academia, fixed income ESG integration experts, proxy advisors, NGOs etc.

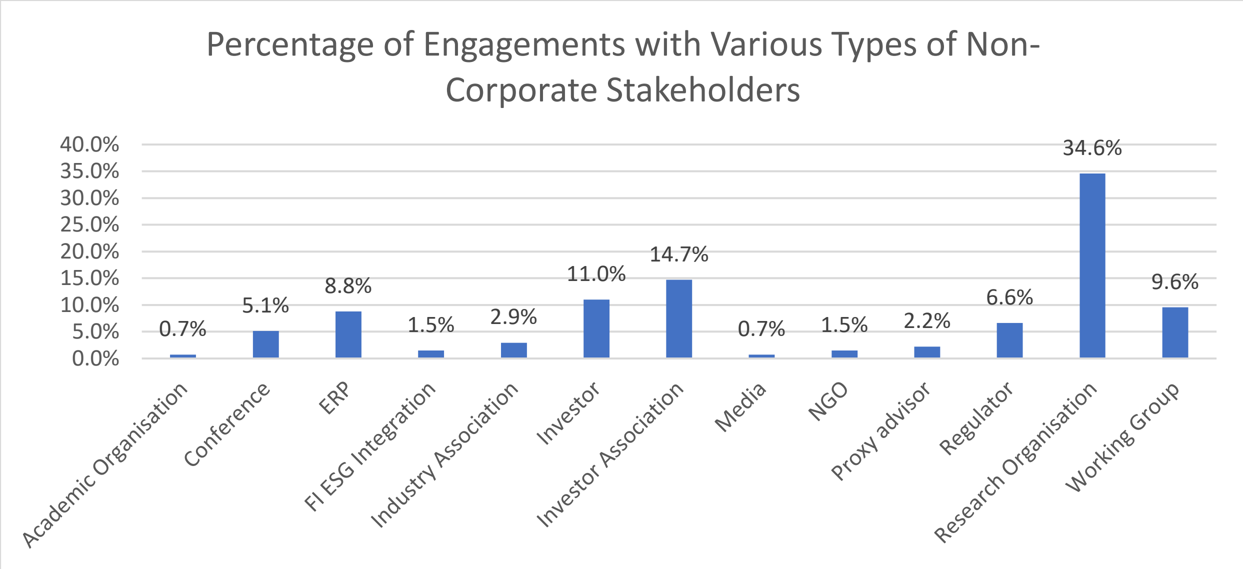

Figure 4: Engagements with various types of Non-Corporate Stakeholders

Written Inputs as Part of Non-Corporate Engagements

SBIFML engages with a variety of stakeholders on ESG issues where thought leadership or policy discussions are the key agenda. Written inputs by SBIFML have been instrumental in such discussions and have become a part of various reports published by these stakeholder groups. SBIFML is a part of various working groups instituted by the regulator, investor and industry associations and industry leaders. This year, written submissions were provided on a breadth of ESG topics. 29% of inputs were provided on improvements of ESG fund disclosures to regulator and industry associations, 26% of written inputs were provided as part of reports to partners under various agreements on SBIFML's own responsible investment strategies, 15% inputs were provided on climate change, 9% on emerging ESG trends, 6% each on sustainable finance and TCFD reporting related topics and the rest on just transition, ESG ratings and corporate governance.

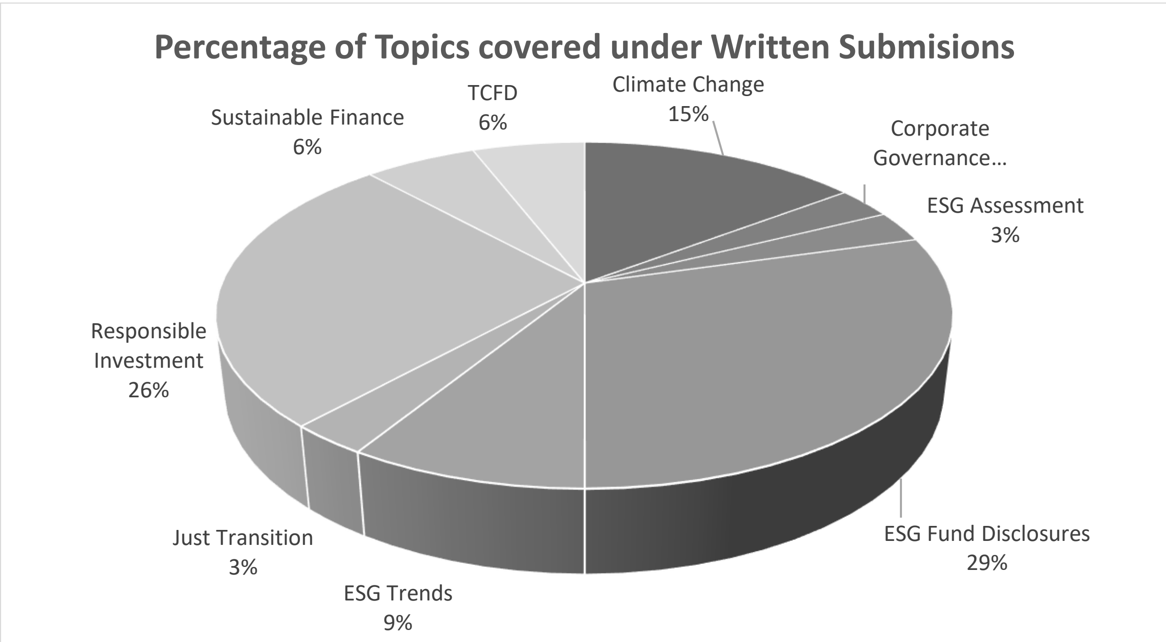

Figure 5: Percentage of topics covered in written submissions by SBIFML in FY22

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

Compliance Status: Complied with

SBIFML exercises its voting responsibilities for its investments through the corporate proxy voting policy available on our website. When voting proxies, SBIFML takes utmost care to ensure that all decisions are made solely in the interests of the funds/unitholders and with the goal of maximizing the value of their investments. However, at no point in time does it intend to participate directly or indirectly in the management of the companies. The details of the voting process are available in the Proxy Voting Policy which available on SBIFML website.

Voting exercised along with the rationale supporting their voting decisions is disclosed on a quarterly basis within ten working days from the end of the quarter in the format prescribed by SEBI as amended from time to time. The AMC discloses the proxy voting exercised on an annual basis on the website of SBI Mutual Fund along with due certification from the 'scrutinizer' in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof. SBIFML takes Proxy Voting very seriously as it is considered an important engagement tool for the AMC.

In FY22, SBIFML Voted on 2,464 individual resolutions, out of which, 2,322 resolutions were voted in favour and 142 were voted against. None of the resolutions were abstained.

Summary of proxy votes cast by SBI Mutual Fund /SBI Funds Management Limited across all the investee companies in FY 22					
F.Y.	Quarter	Total resolutions	Break-up of Votes	
			For	Against
2021-22	Quarter 1 - April to June	220	209	11
2021-22	Quarter 2 - July to September	2123[1]	1754	96
2021-22	Quarter 3 - October to December	148	142	6
2021-22	Quarter 4 - January to March	246	217	29

Table 1: Summary of Proxy Votes cast by SBIFML in FY22

Out of the 142 against votes, 32.4% were against resolutions related to approval of ESOP policies where either the exercise price or discount was not clearly specified or was very deeply discounted. Around 14.1% votes were against resolutions related to appointment of directors either due to over-boarding, attendance concerns, long-standing prior association of the director with the company or election of promoter directors where board was not 50% independent. 12% votes were casted against director re-appointments on similar reasons cited above, but some of them were also voted against because the AMC believed that they had not been able to stop erosion of shareholder value. 9.2% were voted against due to high compensation being proposed for a director, whether exceeding norms, or higher than peers, or not aligned to size or performance of the company. 7% of the votes were against adoption or amendment of Articles of Association (AoA) where either differential rights

[1] 2 Resolutions were withdrawn by the Issuer Company. These agendas were not available for voting by the Company
For 31 resolutions, the Proxy Committee had decided to vote in favour of the resolutions, however AMC missed on voting
For 240 resolutions, the voting was not done by the AMC

were being proposed for a set of shareholders or AoA would provide board nomination rights in perpetuity. 6.3% of votes were casted against combined resolutions of director appointments and compensation where the AMC was either against high compensation, or appointment or both. 3.5% votes were casted against resolutions dealing with adoption of accounts where SBIFML believed that the auditor's qualification of accounts had merit and 3.5% were casted against directors wanting to continue on boards post attaining 75 years of age. While age is not a criterion for a director on SBIMF framework, long association of more than 10 years may not align with independence criteria for directors, which is why they were voted against. Rest of the votes were against resolutions related to auditor appointments, charitable contributions, approvals on loan, investment or divestment, sale and related party transactions.

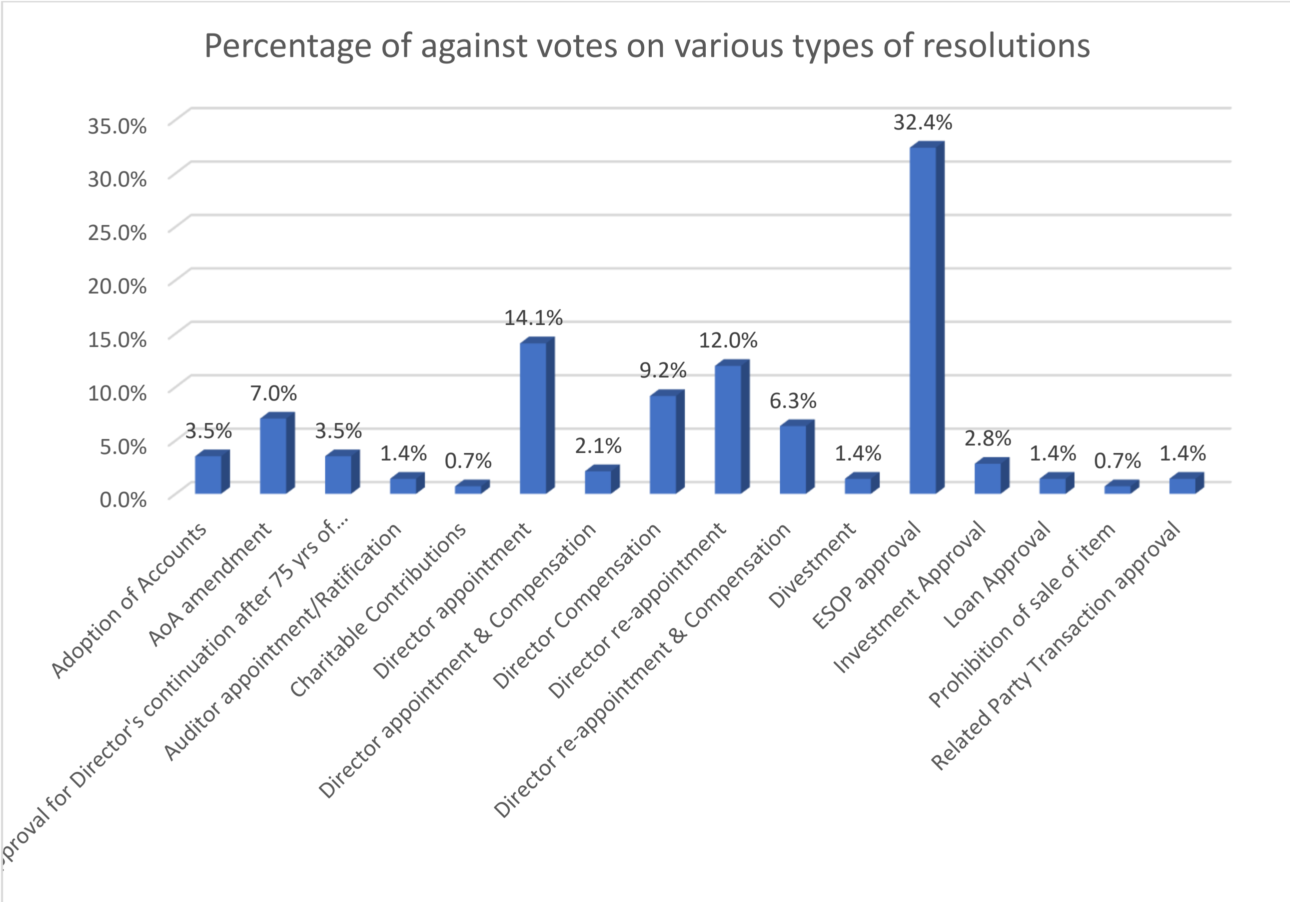

Figure 6: Against Votes cast on Various Resolutions in FY22

Figure 7 below provides a spread of the reasons or rationale behind choosing to vote against 142 resolutions in FY22. 23.2% resolutions were voted against since the ESOPs offered were deeply discounted, 11.3% director re-appointment resolutions were voted against since the proposed directors were on the board for a long period of time, 10.6% voted were casted against compensation resolutions where the proposed compensation was high as compared to company performance, size or peers, 9.9% votes were casted against ESOP proposals where exercise price was not clear, 7% of the votes were casted against proposals that SBIFML found misaligned with minority shareholders' interests and 9.2% were voted against since there was no time period proposed and the resolutions were proposed for perpetuity. Rest of the resolutions were voted against due to directors' low attendance, board not being 50% independent in alignment with Kotak Committee Recommendations, differential rights being offered to a set of shareholders, doubt over internal controls of the firm, proposed independent directors having former association with the company, or serving on too many boards, inadequate disclosures, prior approvals not taken and financial statements being qualified by auditors.

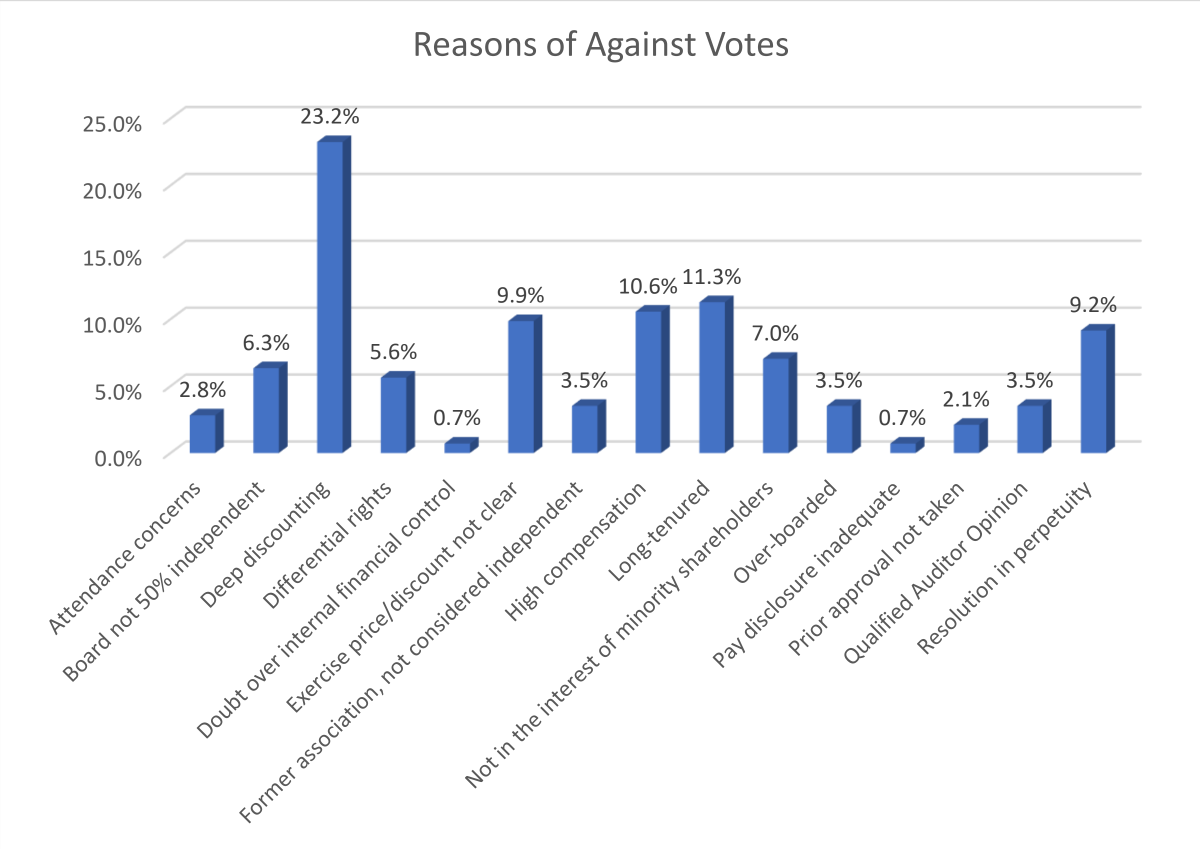

Figure 7: Reasons and rationale for Against Votes in FY22

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

Compliance Status: Complied with

Please refer to "Disclosures" section of our website www.sbimf.com for Stewardship Disclosures.