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Stewardship Code for all Mutual Funds and all categories of AIFs, in relation to their investment in listed equities

1. The importance of institutional investors in capital markets across the world is increasing the world over; they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies. Such activities are commonly referred to as '*Stewardship Responsibilities*' of the institutional investors and are intended to protect their clients' wealth. Such increased engagement is also seen as an important step towards improved corporate governance in the investee companies and gives a greater fillip to the protection of the interest of investors in such companies.

2. Sebi has issued a circular vide CIR/CFD/CMD1/168/2019 dated 24 December 2020 with respect to Regulation 36 of SEBI (Alternative Investment Funds) Regulations, 2012, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

   The Stewardship Code seeks to promote sustainable growth of companies through investment, monitoring and participation through various modes at various levels. The stewardship principles reflect the responsibility of institutional investors to engage constructively with invested companies with the aim of enhancing investment returns for their clients. It reflects to ensure high standards of corporate governance practice is prevailing and followed by investee companies. The Stewardship Code provides framework for good practices in engaging with the investee companies and defines principles considered helpful to institutional investors in fulfilling their stewardship responsibilities with due regard to both their clients and to investee companies.

Stewardship Code is approved by board of Pace Portfolio Managers LLP (Investment Manager of Pace 360 Investment Trust) applicable to all the Schemes under the Fund from time to time. The board entrusted with the responsibility to review compliances. The Stewardship Code is formulated based on the stewardship principles as issued by Sebi vide abovementioned circular.

Stewardship Code

- **Principle 1**

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

Guidance
Stewardship responsibilities include monitoring and actively engaging with investee companies on various matters including performance (operational, financial, etc.), strategy, corporate governance (including board structure, remuneration, etc.), material environmental, social, and governance (ESG) opportunities or risks, capital structure, etc. Such engagement may be through detailed discussions with management, interaction with investee company boards, voting in board or shareholders meetings, etc.

- The board will monitor the operational and financial performances and evaluate parameters to analyse its effects for its investment decisions.

- The board will evaluate the strategies of investee company and its efficiency at industry level including review of board structure and process of decision making in relation to merger/acquisition, other corporate restructuring, and anti-takeover provisions.

- Will have a check on material environmental, social, and governance (ESG) opportunities or risks at Industry level and at company level.

Political and regulatory policies will be reviewed periodically to assess the feasibility of growth

- ❖ Changes in capital structure, any increases and decreases of capital, change in shareholding pattern, decisions regarding issuances of equity or preference shares, buy- back, bonus issue, right issue, dividend declaration etc. shall be assess as and when require.

- ❖ Appointment and resignation of Key management members and auditors and other key team members would be analysed.

- ❖ The board would like to take participate in various other issues that may affect the interest of Shareholders.

- ❖ These mentioned activities could be either through direct interactions or voting mechanisms or tracking developments through publicly available data on a case to case basis.

- ❖ **The board endeavor to engage actively with the investee companies only where it hold 5% or more of its equity shares having voting rights.**

- ❖ **The policy shall be reviewed and updated periodically on annual basis and it shall be disclosed on the website.**

❖ **Principle 2**

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

Guidance

As a part of the aforesaid comprehensive policy, institutional investors should formulate a detailed policy for identifying and managing conflicts of interest. Thepolicy shall be intended to ensure that the interest of the client/beneficiary is placed before the interest of the entity. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge fromeach other.

- ❖ There could be situations which could lead to conflict of interest like Investee company could be a client of the fund manager or its group companies or affiliates or partners, key investment team member or any employee of Investment manager may have a personal interest in the Investee company and they are likely to make a financial gain, or avoid a loss at the expense of the investors of the scheme.

- ❖ It shall not make any investment in its associates companies or companies in which it or its directors has substantial interest of not less than 5% of the paid up capital until unless approval of its investor received and disclosures made in this regard to all unitholders.

- ❖ The board at all times maintain high standards of integrity in the conduct of our business and ensure fair treatment of our clients and not discriminate amongst them;

- ❖ It shall ensure that its personal interest does not at any time conflict with its client's interest . In case of any conflict , its client's interest always takes primacy in its advice, investment decisions and transactions;

- ❖ Appropriate disclosure would be provided to its clients of possible source or potential areas of conflict of interest which would impair its ability to render fair, objective and unbiased services;

- ❖ It shall place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;

- ❖ It shall not deal in securities while in possession of material non published information.

- ❖ All staff/employees shall maintain an arms-length relationship between their personal trading activities and business activities.

- ❖ All designated persons & key managerial persons and associates persons as defined in fund document including their employees shall promptly disclose their existing interest in entities/ with whom investment manager has been engaged or engaging for availing or rendering any services.

- ❖ The investment manager shall provide its rationale for investment in different financial products and sectors.

- ❖ Proper disclosures through periodical reporting regarding fund investment would be provided to clients.

❖ **Principle 3 & Principle 4**

Institutional investors should monitor their investee companies an Principle of Intervention

Guidance
As a part of the aforesaid comprehensive policy, institutional investors should have a policy on continuous monitoring of their investee companies in respect of all aspects they consider important which shall include performance of the companies, corporate governance, strategy, risks etc.

The investors should identify the levels of monitoring for different investee companies, areas for monitoring, mechanism for monitoring etc. The investors may also specifically identify situations where they do not wish to be actively involved with the investee companies e.g. in case of small investments.

The investors should also keep in mind regulations on insider trading while seeking information from the investee companies for the purpose of monitoring.

- ❖ The Investment manager is responsible for assessing and monitoring the investee companies and take corrective actions to protect the interest of the unitholders of the Scheme.

- ❖ The Investment team shall be responsible for supervision and monitoring of investee companies, its business strategy and performance - operational, financial etc. Industry-level monitoring and possible impact on the investee companies.

- ❖ Efficiency and experience of company management, board, leadership etc. Its policy towards Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) number of transaction termed as related party transactions, etc.

- ❖ Verifying and analyzing Risks, including Environmental, Social and

Governance (ESG) risks. Policy related to Shareholder rights and procedure to handle their grievances and manner of efficient system of redressal etc.

- ❖ The Investment Team while dealing with Investee Companies shall ensure compliance with SEBI (Prohibition of Insider Trading) Regulations;

- ❖ As per fund investment strategy it will invest in low risk instruments (Gold, Gild Funds) and high-risk instruments (Equities, Derivatives and in such other securities, listed, quoted or traded on any exchange), as permitted under Applicable Law to ensure portfolio safety and high returns and accordingly shall monitor the investee companies

- ❖ Investment evaluation process shall be on continuous basis, moreover board will endeavour to engage actively (*intervention)with the investee companies only where it holds 5% or more of its outstanding equity shares.

  *Intervention may include meetings/discussions with the management for constructive resolution of the issue and in case of escalation thereof, meetings with the boards, collaboration with other investors, voting against decisions, etc. This may also include interaction with the companies through institutional investor associations (E.g. AMFI).

- ❖ **Principle 5**

Institutional investors should have a clear policy on voting and disclosure ofvoting activity.

Guidance

To protect and enhance wealth of the clients/ beneficiaries and to improve governance of the investee companies, it is critical that the institutional investors take their own voting decisions in the investee company after in-depthanalysis rather than blindly supporting the management decisions.

- ❖ Investment Manager believes in creating and protecting investment of our investors. It believes voting will materially affect shareholder value and it shall be done in the best interest of the Clients.
- ❖ Votes rights shall be exercised cast in favor of proposals that have

efficaciously strengthen the interests of Clients, increase shareholder value, maintain or increase shareholder participation over the issuer's board of directors and management, and maintain or increase the rights of investors.

- Preferably voting right shall be exercised physically by attending members ‘meeting. However, as per board whenever it is feasible to attend e-voting facility it could attend the meeting through e-mode.
- Voting will be done after assessing the proposal minutely and considering important factors which would be in the best interest of Clients. The board will also take utmost care to not subrogate Client interests to its own interests.
- The fund manager shall disclose the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies in respect of the following matters:

1. Corporate governance matters, including changes in the state of incorporation, merger and other corporate restructuring, and anti-takeover provisions.
2. Changes to capital structure, including increases and decreases of capital and preferred stock issuances.
3. Stock option plans and other management compensation issues;
4. Social and corporate responsibility issues.
5. Appointment and Removal of Directors.
6. Any other issue that may affect the interest of the shareholders in general and interest of the unit-holders in particular.

- Voting at the Extraordinary General Meetings or in respect of items requiring approval by special resolution on the following matters will be decided after taking into consideration percentage of equity holdings in the Investee Company, materiality and impact of the investment, conflict of interest, protection of shareholders interest and other matters as follows:

  i. Merger, demerger, acquisition, hiving off division, takeover and other corporate restructuring;
  ii. Expansion, diversification, incorporation of subsidiary;
  iii. Preferred stock issue, capital structure, stock option plan;
  iv. Unusual high payments of royalty, compensation, etc.;
  v. Corporate Social Responsibility matters ; and
  vi. Such other matters that may affect the investors’ interest.

- Taking into consideration, the nature and importance of the items contained in the agendas, the investment manager may not attend the meetings, in case it is not materially affecting the investors' interest or any other reasons.

- Wherever board comes to know that there may be potential conflict of interest when it votes on an entity with which it may have some relationship or otherwise, the AMC will exercise discretion carefully keeping in mind the best interest of the unit holders.

- Before exercising the voting, senior management personnel will review the Annual Reports and the Notice of the meeting and exercise voting rights in a manner beneficial to clients.

  The board endeavor to participate in voting actively with the investee companies only where it hold 5% or more of its equity shares having voting rights.

- **Principle 6**

Institutional investors should report periodically on their stewardship activities.

Guidance

Institutional investors shall report to their clients/ beneficiaries periodically on how they have fulfilled their stewardship responsibilities as per their policy in an easy-to-understand format.

- Investment manager shall issue report detailing its voting exercised, manner of dealing with conflicts of interest, if any set out under this policy, extent of monitoring of investee companies, any intervention or collaboration undertaken.