



**KLAY SECURITIES PRIVATE LIMITED**

**AS**

**INVESTMENT MANAGER  
FOR KLAY FUNDS AIF**

**STEWARDSHIP CODE**

**CONTROLLED COPY**



SUMMARY OF POLICY

|                                  |   |
|----------------------------------|---|
| Policy Name                      | Stewardship Code  |
| Policy Type                      | B - Board      M - Management<br>D - Department   |
| Related policies and regulations | SEBI Circular on Stewardship Code for all Mutual Funds and all categories of AIFs, in relation to their investment in listed equities |
| Issue date                       | June 01, 2020   |
| Modified date                    | October 07, 2021  |
| Owner / Contact                  | Investment Manager  |
| Approver                         | Board of Directors of Investment Manager  |



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## 1. Short title and commencement

This document on Stewardship Code ('Code') sets out the framework and guidelines on discharge of the stewardship responsibilities of Klay Securities Private Limited (hereinafter referred to as 'KSPL'), being the Investment Manager to SEBI registered Category III Alternative Investment Fund, Klay Funds AIF.

The Code has been framed in accordance with Guidelines on Stewardship Code for Alternative Investment Funds issued by SEBI vide circular no CIR/CFD/CMD1/ 168 /2019 on December 24, 2019 and adopted pursuant to the approval of the Board of KSPL.

## 2. Background

- 2.1. Klay Securities Private Limited ('KSPL') is the Investment Manager and Sponsor to Klay Funds AIF ('Trust') and will be launching various scheme of the Trust. Klay Funds AIF has been constituted as a trust under the Indian Trusts Act 1882 and is registered with SEBI as a Category III AIF. The Trust may float various schemes during its tenure. KSPL will make investment and divestment decisions on behalf of the Fund.
- 2.2. Each fund/scheme floated by the Trust will be primarily governed by the regulations, terms of Private Placement Memorandum ('PPM') and such other agreements and fund documents as executed with the clients from time to time.

## 3. Scope

This Code covers the framework and the various processes that need to be followed for discharging the Stewardship responsibilities and its disclosure by Klay Funds AIF.

## 4. Objective of this code

The Code enumerates the processes that the KSPL intends to follow in order to safeguard the interests of the investors of the fund while managing the investments in listed equities under various schemes of AIF. The purpose of the Code is to enhance the quality of engagement between institutional investors and the investee companies as a step towards improved Corporate Governance practices with a view to enhance long term returns to investors and the governance responsibilities

It is desired that the institutional investors play an active role in the general meetings of investee companies and engage extensively with their management to improve their governance standards and practices. This will result in informed decisions by the parties and ultimately improve the return on investments and protect interests of unitholders.

## 5. Principles of this 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.*

KSPL manages various asset classes and has various investment capabilities. As sustainability is an important part of the investment philosophy of KSPL, the following primary stewardship responsibilities taken into account throughout these capabilities and asset classes.

- take into account the corporate governance practices of investee companies, when undertaking buy and sell decisions;
- take into consideration, in the investment process, investee companies' policies and practices on environmental, social and governance matters;
- enhance investor value through productive engagement with investee companies;
- vote and engage with investee companies in a manner consistent with the best interests of its investors;
- be accountable to investors within the parameters of professional confidentiality and regulatory regime; and
- maintain transparency in reporting its voting decisions and other forms of engagement with investee companies

### Discharging Stewardship Responsibilities:

KSPL shall discharge its stewardship responsibilities through:

- voting on shareholders' resolutions, with a view to enhance value creation for the investors and the investee companies;
- advocating for responsible corporate governance practices, as a driver of value creation; and
- Intervening on environmental, social and governance opportunities or risks in the investee companies.

#### Responsibility for oversight of the stewardship activities:

- The investment committee of KSPL shall ensure that there is an effective oversight of KSPL's stewardship activities.
- KSPL, if required may avail the services of external agencies (institutional advisors) in discharging its Stewardship responsibilities. The said cost may be apportioned to the fund
- Notwithstanding the above, the ultimate stewardship responsibilities shall be discharged by KSPL.

#### Disclosure of Code

This Code and any amendment thereto, shall be disclosed on the website of KSPL

#### Training

KSPL may provide training at regular intervals to the employees involved in implementation of the principles laid in the Code.

***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. The term "conflict of interest" refers to instances where personal or financial considerations may compromise or have the potential to compromise the judgment of professional activities.***

KSPL shall abide by high level principles on avoidance of conflicts of interest while managing investments of the Fund. The detailed process of identifying and managing conflict of interest is as follows:

#### Identifying conflict of interest:

While dealing with investee companies, the Investment Manager may be faced with a conflict of interest, inter alia, in the following non-exhaustive instances, where:

- The investee company is a client of KSPL for its other business activity;
- Investee company is directly or indirectly linked to another investee company of Fund;
- The investee company holds an interest, in the overall business or is a distributor for KSPL;
- KSPL is a supplier of the investee company;
- A nominee of KSPL has been appointed as a director or a key managerial person of the investee company;
- A partner or a key managerial person of KSPL has a personal interest in the investee company;
- The more of assets in the AIF fund, the more money LLP will earn, Manner of managing conflict of interest:
- Implementation of a fair investment policy and appropriate disclosures made to the investors of the AIF fund if any.
- The transaction is in compliance with the applicable regulations and is at arm's-length.
- The conflict is disclosed to the management before entering into transaction
- The voting decision is in the best interest of the stakeholders keeping the interest of fund holders first.
- Documentation of the process of resolving any identified material conflict of interest.

#### ***Principle 3: Institutional investors should monitor their investee companies***

- The Investment team shall be responsible for the monitoring of the investee companies' performance. The investment team may consider the investee companies' leadership effectiveness, succession planning, corporate governance, reporting and other parameters they consider important while making investment decisions.
- The Investment team shall engage with investee companies as part of the research process that leads to an investment in an investee company, which might include meetings with management.
- Once an investment is made, the Investment team shall continue to monitor each investee company. As a part of this process, the fund manager/ analysts shall, where feasible, attend meetings/Conference calls conducted by the management of the investee company. Manager/ analysts may also use publicly available information, sell side research and industry information and shall engage with the investee companies at least once a year, through any means detailed above.

- While dealing with the investee company, KSPL shall ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015.
- The Investment and Risk Committee shall review the monitoring and engagement activities being carried out by the Investment team on an annual basis.

*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.*

KSPL's engagement is integral to its investment processes as it firmly believes that this is an important way to preserve value for Fund investors.

#### Applicability

KSPL shall intervene in the acts/omissions of an investee company, in which the fund has:

- invested Rs. [100 crore] or
- holds at least [5] % of the share capital of the investee company or

KSPL shall intervene if, in its opinion, any act/omission of the investee company is considered material on a case-to-case basis, including but not limited to insufficient disclosures, inequitable treatment of shareholders, non-compliance with regulations, performance parameters, governance issues, related party transactions, corporate plans/ strategy, poor financial performance of the investee company, Environmental Social and Governance risk, litigation or any other related matters

#### Intervention by KSPL:

The decision for intervention shall be decided based on the following broad parameters:

KSPL shall not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment.

KSPL may consider intervening in matters below the thresholds, if in the reasonable opinion of KSPL, the issue involved may adversely impact the overall corporate governance atmosphere or the Fund's investment.

The mechanisms for intervention are:

KSPL engages with investee companies through both formal and informal channels including private meetings and attendance at company meetings as well as telephone and electronic methods.

- **Communication:** If concerns regarding an investee company's approach or decisions arise, initial discussions would, if appropriate, take place on a confidential basis and where possible as part of the fund manager's ongoing discussion.
- **Engagement:** In the event the above fails to undertake constructive steps to resolve the concerns raised by fund manager within a reasonable timeframe, KSPL shall take all reasonable steps to engage with the management of the investee company to resolve such concerns by KSPL.
- **Re-engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by KSPL within a reasonable timeframe, KSPL shall take all reasonable steps to re-engage with the management to resolve KSPL's concerns.
- **Escalation** Where KSPL's concerns have not been managed through the usual channels of communication, then the Fund Manager may seek to escalate the concerns. KSPL shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. KSPL may also consider discussing the issues at the general meeting of the investee company.
- **Reporting to the Regulators:** If there is no response or action taken by the investee company despite the first four steps, KSPL may approach the relevant authorities.

In case KSPL's intervention is not successful (either fully or partially), it will not automatically result in the requirement to exit the Fund's investment in the investee company. The decision to purchase more equity or sell all or part of the Fund's investment in the investee company shall be made by the Committee, which may consider the outcome of the intervention as an input in its decision-making process.



**Collaboration:**

KSPL shall consider collective engagement with other institutional investors, professional associations, regulators, advisors and any other entities where it deems necessary on a general basis and in particular, when it believes, a collective engagement will lead to a higher quality and/or a better response from the investee company. KSPL may approach, or may be approached by, other Investment Manager/Asset Managers/Insurers/Mutual Funds etc. to provide a joint representation to the investee companies to address specific concerns. KSPL shall determine individually its position on any issue requiring collaborative engagement and shall not act or be construed as acting as a 'person acting in concert' with other investors.

***Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity.***

- KSPL shall exercise their voting rights and vote on shareholder resolutions of investee companies in accordance with the voting policy.
- KSPL shall disclose all voting activity to its investors on an annual basis. KSPL shall also disclose if it has relied (either partly or fully) on the voting recommendations provided by any proxy advisory firm.
- Attendance at General Meetings: KSPL shall strive to attend general meetings of the investee companies (annual as well as any extra ordinary shareholders' meetings) where appropriate, and to the extent possible, actively speak and respond to the matters being discussed at such meetings if required.
- Mechanism: KSPL may vote whether by means of e-voting, physically attending meeting, voting through proxy or otherwise.

***Principle 6: Institutional investors should report periodically on their stewardship activities***

KSPL shall provide a report of the discharge of its Stewardship Responsibilities annually as a part of the public disclosures on its website, for the benefit of its ultimate beneficiaries (investors).