

# POLICY ON DISCHARGE OF STEWARDSHIP RESPONSIBILITIES

## FOR DICKEY ALTERNATIVE INVESTMENT TRUST

### **1. BACKGROUND**

Dickey Asset Management Private Limited (“**DAMPL**” or “**Manager**”) acts as the investment manager to Dickey Alternative Investment Trust (“**Fund**” or “**AIF**”) which has been established as a contributory determinate trust, settled under the Trust Act, 1882 vide the Trust Deed dated 24-12-2019 registered under the Registration Act, 1908. The Fund has been registered as a Category II AIF with the Securities and Exchange Board of India (“**SEBI**”) vide registration number IN/AIF2/20-21/0813 on 16-06-2020. The Fund has been established with the objective to invest in accordance with the investment objective of the schemes and SEBI (Alternative Investment Funds) Regulations, 2012 (“**AIF Regulations**”).

DAMPL is responsible, in its fiduciary capacity, to act in the best interests of its unit holders which, inter alia, include monitoring and engaging with the investee companies on behalf of the AIF. DAMPL believes that good corporate governance by portfolio companies driven by sound governance policies is in the best interests of the clients and will help to maximize the value of their investments.

SEBI vide circular number CIR/CFD/CMD1/168/2019 dated December 24, 2019 prescribed Stewardship Principles to be adopted and implemented by the AIFs in relation to their investment in listed equities. Accordingly, this Stewardship Policy was approved by the Board of DAMPL in its meeting held on 22-06-2020 and shall be effective from 22-06-2020.

### **2. OBJECTIVE**

The importance of institutional investors in capital markets across the world is increasing and as such 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 institutional investors and are intended to protect their client’s 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.

The Stewardship Code is formulated based on the following stewardship principles laid down by SEBI–

- i. Principle 1 - Institutional Investors should formulate a policy on the discharge of their stewardship responsibilities and publicly disclose it.
- ii. 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.
- iii. Principle 3 - Institutional Investors should monitor their investee companies.
- iv. Principle 4 - Institutional Investors should have a clear policy on intervention in their investee companies. Institutional Investors should have a clear policy for collaboration with other institutional investors, where required, to preserve the interests of the ultimate investors, which should be disclosed.
- v. Principle 5 - Institutional Investors should have a clear policy on voting and disclosure of voting activity.
- vi. Principle 6 - Institutional Investors should report periodically on their stewardship activities.

### **3. RESPONSIBILITIES**

The roles and responsibilities are defined as below:

#### **Investment Team**

The respective Investment team shall be responsible for ongoing monitoring of the investee companies, for engaging with the management of the investee companies and for identifying situations which require intervention in the investee companies and manner of this intervention. The investment team shall also be responsible for identifying situations which may give rise to a conflict of interest. The team may seek guidance from the Investment Committee in matters pertaining to intervention in investee companies or conflict of interest.

#### **Compliance Team**

The Compliance Team shall be responsible for disclosures pertaining to stewardship activities including voting reports at a frequency stated by SEBI. The team shall also be responsible for maintaining the records pertaining to the voting activities and maintaining a list of investee companies in which conflict of interest, as defined below herein has been identified.

### **4. IMPLEMENTATION AND COMPLIANCE**

#### **Principle 1 – Stewardship Responsibilities**

Stewardship responsibilities include monitoring and actively engaging with investee companies on various matters including performance (operational, financial, etc.), material environmental, social, and governance (“ESG”) opportunities or risks, capital structure, etc. In order to effectively carry out the stewardship responsibilities at the time of making investment decisions, we must understand not only our investee companies’ financial matters, but also their non-financial matters including ESG. Even if a company has shown consistent excellence in its financial performance, inadequate

level of performance in such non-financial aspects would hinder the improvement of a company's value from a mid- to long term perspective. Thus, during the investment decision phase, the experienced analysts and fund managers of the AIF would comprehensively consider financial and non-financial aspects, with special attention to corporate governance.

Stewardship activities on behalf of the Fund shall be undertaken by the Investment Team of DAMPL, which shall be responsible to ensure the implementation of the Stewardship Code duly approved by the Board. The Investment Team will seek guidance from Investment Committee with respect to fulfilling the stewardship responsibilities. The Investment Committee shall be responsible for monitoring the implementation of the Stewardship Code. All the personnel involved in the implementation of the Stewardship Policy shall be trained to be made aware of their responsibilities.

DAMPL as part of its investment portfolio invests in listed equities/securities of various investee companies to enhance the portfolio returns and diversify its investments. This policy aims to define the minimum levels of engagement required to be maintained with the investee companies. The engagement will be inclusive of and not restricted to:

- Review of periodical performance of the investee companies;
- Corporate Governance matters, merger/acquisition, other corporate restructuring;
- Changes in capital structure, including increases and decreases of capital, preferred stock issuances, buy-back, dividend etc.;
- Stock Option Plans and other managerial compensation issues;
- Appointment and Removal of Directors, Statutory Auditors etc;
- Any other issue that may affect the interest of shareholders.

The Investment Manager's investment objectives are to seek a high return on investment opportunities and to preserve capital and limit downside risk while achieving a reasonable rate of return by focusing on opportunities with attractive risk to reward profiles. DAMPL aims to adopt a flexible approach to investment targets without placing unnecessary limits on potential returns on its investment. This approach is demonstrated in the Investment Manager's investment process set out below.

**Investment Sector:**

As per the objective defined under the Private Placement Memorandum of the existing and future Schemes under the Fund.

**Investment Types:**

To invest in Structured Instruments like NCD's, OCD's, CCD's, OCPS, CCPS or any quasi-equity instruments of Private Unlisted Entities.

To invest in high yield public and private debt securities, equity/ equity linked securities/ other equity-like instruments.

**Investment Size:**

Within the limits prescribed under AIF Regulations. Subject to the availability of capital, the Investment Manager intends to create a diversified portfolio of investments. The composition of its investment portfolio will vary over time depending on its assessment of a number of factors including the performance of financial markets and credit risk.

**Investment Review:**

The Investment Team of the Fund will actively review and revisit all of the investments on an ongoing basis by attending calls/conferences conducted by the investee companies/brokers, studying research reports published by research analyst & different brokers, independent research and forecast about the investee company performance on a quarterly basis.

**Liquidity:**

As a process, the Investment Team will recommend a liquidation proposal to the Investment Committee to evaluate the liquidity of investments and seek to realize value from same in a prudent and orderly fashion.

DAMPL shall:

- (a) in the investment process, in addition to financial and operational performance metrics, take into consideration the investee companies' policies and practices on environmental, social and corporate governance matters;
- (b) be cautious in conducting stress tests at the investment level i.e. the impact of valuation of adverse changes in parameters, risk model validation, back test the assumption of the model and assumption of back tests.
- (c) Limit investment to 25% or less of investible funds in any one investee company thereby diversifying project / Fund's concentration risk.
- (d) enhance shareholder/investor value through productive engagement with investee companies on various matters including performance (operational, financial, etc.), corporate governance (board structure, executive remuneration), material environmental, social and governance ("ESG") risk or opportunities, capital requirements and deployment, strategy, entering a new sector or jurisdiction, etc.;
- (e) vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
- (f) influence the development of corporate governance standards and corporate responsibility;
- (g) be accountable to shareholders/investors within the parameters of professional confidentiality and regulatory regime; and

- (h) maintain transparency in reporting its voting decisions and other forms of engagement with investee companies.
- (i) disclose its stewardship policy and activities to its investors on a periodic basis.

Stewardship responsibilities shall be discharged through:

- (a) using resources, rights and influence available at their disposal;
- (b) attending investor calls and general meetings;
- (c) endeavouring to have detailed discussions with the management and interactions with the investee company management and boards;
- (d) voting on board or shareholders' resolutions, with a view to enhance value creation for the investors and the investee companies;
- (e) advocating for responsible corporate governance practices, as a driver of value creation; and
- (f) intervening on material ESG opportunities or risks in the AIF's investee companies.

This policy on Stewardship responsibilities will be uploaded on the website of DAMPL and will be reviewed on annual basis.

DAMPL may use the services of institutional advisors to assist. The services of external agency may or may not be availed but the responsibility for steward activities shall lie with DAMPL only.

### **Principle 2 – Managing Conflict of Interest**

DAMPL maintains and operates effective organizational and administrative arrangements with the view of taking all reasonable steps to identify, continuously monitor and manage conflicts of interest. Conflict of interest may arise in relation to the various activities carried out by contributors/unitholders, the Trustee, the Investment Manager or its Directors/KMPs (collectively, the 'Interested Parties') vis-a-vis the activities of the AIF. DAMPL has adopted policies and procedures intended to protect the interest of the Investors in the AIF against any adverse consequences arising from potential conflicts of interest. DAMPL will continue to review all stewardship responsibilities and perform its duties in a responsible manner keeping in mind the best interests of unit holders, in line with the regulatory requirement.

All Investment Team members involved in managing the investment portfolio/ involved in implementing the Stewardship Code will strive to avoid conflict of interest. Following are the approaches of managing conflict of interest:

- (a) The board of directors of DAMPL shall frame guidelines for dealing with conflict of interest.
- (b) investment decisions pertaining to the schemes of AIF should be in accordance with the investment objectives of the relevant schemes.
- (c) Investment of schemes in associates should be at arm's length, with proper rationale, within necessary regulatory limits and approvals, if any, required under the regulations.

- (d) Compliance department should maintain a conflict of interest database and the Investment Team will co-ordinate with the compliance department for reviewing the potential conflict while making an investment decision.
- (e) On an annual basis, every employee, officer and director of the AIF must submit a securities statement setting out the details of the securities of listed companies and unlisted companies held by him/her (including the securities held by his/her immediate relative) as per insider trading Code of Conduct of the Company.
- (f) Rationale for voting on each shareholder resolution shall be recorded in the internal records.
- (g) A clear segregation between the investment teams, voting functions and business team shall be maintained.
- (h) Business-level conflicts shall be resolved on a case-to-case basis after factoring in the relevant considerations.
- (i) Conflicted employees, directors and officers will not be allowed to participate in the discussions and voting decisions/transactions in which they are interested.
- (j) Blanket bans on investments in certain cases.

### **Countermeasures to be taken in the Event of Conflicts of Interest**

DAMPL will try to prevent conflicts of interest in advance. However, there is a possibility that it cannot completely bar the possibility of such conflicts from arising at all. Despite the above measures in place, if it is determined that it would be difficult to lower the possibility of such conflicts from arising, the DAMPL will take appropriate measures for the benefit of best interests of the unit holders.

DAMPL has a board approved conflict management policy to countenance the various conflict management scenarios that may arise for the AIF.

### **Principle 3 – Monitoring Investee Companies**

The Investment Team carries out financial analysis of the investee companies, engages with the senior management/investor relations officials or any other management personnel/promoters of the investee companies as part of the research process that could lead to an investment in an investee company and once the investment is made, the Investment Team continues to monitor the performance of each investee company.

Monitoring of investee companies is done with the aim of enhancing the medium-to long-term corporate value, capital efficiency and supporting sustainable growth. This includes monitoring the investments and measuring the portfolio's performance relative to the benchmarks. A report on investment performance is prepared on a quarterly basis and a portfolio plan is reviewed. The portfolio situation and goals determine if there have been any significant changes.

The portfolio review then determines if the allocation is still on target to track the risk-reward profile. If it is not, then the portfolio can be rebalanced, selling investments that have reached their targets, and buying investments that offer greater upside potential.

In order to raise the investment value from a mid- term to long-term perspective, it is necessary to comprehend financial and non-financial factors in a comprehensive manner. A variety of factors, including non-financial ones are considered relevant. Factors may include, for example, governance, strategy, performance, fundamentals, capital structure, and risk management (including how the companies address risks arising from social and environmental matters) of the investee companies. The Investment Team endeavours to identify at an early-stage, issues that may result in a material loss in the value of investee companies.

The Investment Team strives to recognize the risks associated with investee company businesses as the proactive identification, assessment, measurement and managing risk effectively is critical to the immediate and future success of the investment made by the Fund.

Investment Team follows different levels of monitoring for different investee companies, areas of monitoring, a mechanism for monitoring, etc. It specifically identifies situations where they do not wish to be actively get involved with the investee companies e.g. in case of investment below One Crore.

Key areas for monitoring include the following:

- (a) Company strategy and performance - operational, financial etc.
- (b) Industry-level monitoring and possible impact on the investee companies.
- (c) Quality of company management, board, leadership etc.
- (d) Corporate governance including remuneration, the structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
- (e) Risks, including Environmental, Social and Governance (ESG) risks.
- (f) Shareholder rights, their grievances etc.
- (g) Succession planning.

The Investment Team makes a sincere attempt to identify, assess, measure and then manage threats that could threaten the Fund's investments and then take appropriate steps in the interest of investors.

The Investment Team will decide the level of monitoring for companies depending on the investment in the company with respect to the total asset under management of the AIF.

For the said monitoring process Investment Team will use publicly available information, and may be carried out through a combination of following -

- (a) Interaction with management through meetings, calls or emails.
- (b) Preparation of periodic notes on the investee companies.
- (c) Information available in the public domain.

- (d) Research Reports on the Company and/or Industry.
- (e) Discussion with various stakeholders.

While the endeavour would be to ensure at least one meeting is held with the investee company management in a year, there may be investee companies where the management is not accessible or not accessible at appropriate levels or cases where the Investment Team believes that there is no incremental information is being provided by the management. In such cases, it is possible that monitoring is done on best effort basis with the help of other sources viz. report of the research analyst.

DAMPL shall make timely and adequate disclosure to investors and concerned authorities as per the provisions of AIF Regulations for alternative investment funds as may be required from time to time.

SEBI insider trading regulations will be followed while seeking information from the investee companies for the purpose of monitoring.

#### **Principle 4 – Intervention in Investee Companies and Collaboration with Institutional Investors**

DAMPL may intervene on a case-to-case basis if it feels that its intervention is required to protect the interest of the contributors/unitholders. Such intervention may be on a standalone basis or along with collaboration with other institutional investors.

Situations, which require intervention from time to time, may include but are not limited to matters like:

- (a) Poor financial performance of a company,
- (b) Issues relating to corporate governance,
- (c) Insufficient disclosures,
- (d) Inequitable treatment of shareholders,
- (e) Non-compliance to regulations,
- (f) ESG Risks,
- (g) Performance parameters,
- (h) Governance issues,
- (i) Remuneration and composition of Board,
- (j) Leadership issues,
- (k) Lawsuits/litigation,
- (l) Corporate plans/ strategy,
- (m) CSR and environment-related matters,
- (n) Any other important issue.



The decision on active intervention, as detailed below, would be taken by the Investment Committee in respect of the investee companies. In case the investment is already earmarked for divestment or post-planned divestment holding will be below the threshold level, intervention may not be considered unless there are other factors which warrant intervention.

In case of issues of serious nature, the Manager/ Investment Committee may decide, for rationale to be recorded in writing, to intervene in respect of investments less than the threshold level i.e. Five Crores.

The hierarchy of intervention is outlined as below:

**Communicate** – Interaction with the investee company, in a confidential manner, to resolve the issue constructively by communicating about any concerns of the Company including steps to be taken to mitigate such concerns.

**Engagement** - In the event there is no response from the management of the investee company or it fails to undertake constructive steps to resolve the concerns raised by the Company within a reasonable timeframe, DAMPL shall take all reasonable steps to engage with the management of the investee company for constructive resolution of the Company's concerns. DAMPL may re-engage with the management to reiterate the conclusions or the plans of action decided at the prior meetings.

**Collaboration** - DAMPL shall also consider collaboration with other institutional investors, professional associations like AMFI, regulators, and any other entities it deems necessary for a collective engagement or joint representation with the investee company.

**Escalation** – If dissatisfied with the progress through the Communication step above, DAMPL will proceed to escalate the matter further first by communication to the Managing Director and/or Chairman of the investee company, and thereafter to the Board of Directors of the investee company.

**Voting** - DAMPL will vote against or abstain from voting in case the governance practices of the investee company are improper.

**Reporting to regulators/authorities** - Despite escalation, if there is no response or corrective action taken by the Investee Company, the Investment Committee may decide to report to the relevant regulator, authority or any Government body as may be required.

DAMPL decision to engage is a result of a number of factors. Those companies in which a significant investment is held and in which the fund manager intends to maintain a holding for the long-term are considered high-priority engagements, together with those where a reasonable probability is believed that the investee company's management team will enter into constructive dialogue with us. In all cases of engagement with the management and/or the Board of Directors of the investee

company, all communications and discussions should be conducted in a private and confidential manner.

### **Principle 5 – Policy on Voting**

DAMPL is duty bound to protect and enhance the wealth of its contributors/unitholders and to improve governance of the investee companies, DAMPL's voting decisions in the investee companies are taken after an in-depth, detailed analysis and fact-finding. DAMPL shall have a comprehensive voting policy which includes details of mechanisms of voting, circumstances in which voting should be for/ against/ abstain, disclosure of voting, etc.

DAMPL voting policy inter-alia includes:

- (a) Mechanisms of voting (e.g. e-voting, physically attending meetings, voting through a proxy, etc.)
- (b) Voting Guidelines
- (c) Disclosures of voting etc.

### **Principle 6 – Reporting**

DAMPL shall report to its contributors/unitholders periodically on its stewardship activities in the following manner:

- (a) A report on the implementation of every principle may be placed on the website or may also be sent as a part of annual intimation to its beneficiaries. The format of disclosure will be approved by Manager/ Investment Committee and is subject to regular updates.
- (b) Different principles may be disclosed with different periodicities. E.g. Voting may be disclosed on a quarterly basis while implementation of conflict of interest policy may be disclosed on an annual basis.
- (c) Any amendment and/or updation of the Policy will be disclosed on the website be as and when the Policy is amended and/or updated.
- (d) The report may also be sent as a part of the annual intimation to our beneficiaries. The report shall inter alia include details indicating the compliance/any variances with the principles laid down in this Code. The format and content of the status report will be decided by the Investment Committee.

### **Ownership**

The policy is owned by the Investment Team of DAMPL, which would monitor that the Policy is followed in true spirit and maintain all the documents for internal and audit purposes. The Investment Team will provide its decisions and recommendations (along with supporting documents) to the Investment Committee or Board on timely basis, on the stewardship related issues referred to them.