

Responsible Investment Policy – Equity

Kotak Mahindra Asset Management (Singapore) Pte Ltd ('KMAMS') has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2018. As UNPRI signatories, we commit amongst others to incorporate Environmental, Social and Governance (ESG) issues and risks into our investment analysis and decision-making process, whereby ESG issues refer to both (a) the impact of ESG-related risks on investments as well as (b) their impact on sustainability factors. As active managers with focus on long term investing, other than just financial outlook, we combine multiple factors to take a view on an investee company. Principles of ESG are an integral part of the investment process at KMAMS and are embedded in the investment philosophy we follow in relation to listed public equities.

Our sustainable investment approach seeks guidance from the United Nations Principles of Responsible Investment (UNPRI) and incorporates the following:

- Identifying and integrating ESG issues and sustainability risks into investment analysis and decision-making processes.
- Making appropriate disclosure on ESG issues
- Regularly reporting on activities and progress towards implementing the same

Measuring the impact of ESG-related risks on investments

ESG risk involves any potential environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Sustainability risks impacts all businesses and investment decisions. We believe that investee companies with sustainable business practices could have a competitive advantage and are likely to be more successful in the long-term. As stewards of the assets entrusted to us by our clients, we take into consideration factors impacting the value of our investments, today and in the future.

We believe ESG factors can positively or negatively influence risk and returns, especially in the long term and hence ESG principles are an integral part of our current investment process and are embedded into the investment philosophy we follow.

Some of the key factors relating to ESG that we consider in our investment decision are:

Environment*	Social	Governance
Carbon emission and its environmental impact	Safety of employees	Shareholder structure
Energy consumption and focus on resource efficiency	Employee retention policies / attrition levels	Board composition: Size and structure / tenure etc; Independence of the Board; Remuneration
Extreme weather events and its impact	Participation of women in the work force / diversity	Integrity and ethical behaviour
Environmental pollution and its impact	CSR (Corporate Social Responsibility) spends	Capital allocation policies
Usage of alternate energy sources	Involvement in the production or development of cluster bombs, land mines or weapons for mass destruction like chemical or biological weapons	Regulatory compliance

** We are aware that climate change and transition to a low carbon economy would present risks and opportunities for investments, the impact of such transition would be vary across sectors and industries and would occur over a period of time.*

Integrating ESG into our investment process and philosophy

Fundamental analysis is the bedrock of our investment decisions. Our investment philosophy of Business, Management and Valuation (BMV) focuses on sustainability of business and corporate governance. While we use the BMV model for fundamental analysis, we seek to integrate the same with the ESG framework which we define as the 3E (Evaluation – Engagement – Exclusion) strategy. We outline the details below:

Business – Management – Valuation (BMV Model)

Business:

- This incorporates various factors relating to the sustainability and the scalability of the business. Herein we focus on businesses which have scalable and sustainable models both in terms of business as well as profitability
- Typically, we analyze companies as going concerns and therefore evaluate companies over a long period of time. While evaluating businesses, the impact of various factors including those related to the environment and social segments are taken into account.

Management: This takes into account corporate governance practices of the company, its orientation towards social and environmental responsibility, capital allocation policies etc. which would have a bearing on both valuations as well as financials.

Valuations: We seek to evaluate companies on the basis of their ability to generate positive cash flows and Return on Equity (ROE) in excess of cost of capital. While the process of valuing a company may not explicitly bear the influence of ESG, we do take into account ESG while arriving at the fair valuation multiple for a company. Often, environmental and social factors need to be analyzed as long-term risks to the base case valuation.

ESG integration framework (3E) (Evaluation – Engagement – Exclusion (mandate specific))

ESG Integration into the investment Process is based on our 3E methodology in addition to our fundamental analysis framework.

Evaluation

We believe that understanding securities holistically — including their ESG characteristics — helps informed investment decision making. We seek to integrate the analysis of material ESG factors that we believe would impact long term risk adjusted returns into our investment and risk-management processes.

We evaluate companies on ESG parameters not only on a current basis but also continuously track the changes that these companies incorporate over time. Changing regulatory requirements will also guide our investment process, engagement and monitoring of our investee companies.

We may from also engage the services of a third-party service provider to aid in the process of ESG evaluation of companies.

Engagement

We believe in the need to adopt a positive engagement approach whereby we engage with all our investee companies especially whenever we experience shortfalls on any of the principles of ESG. We seek to continuously engage with companies to understand better their ability to create sustainable value and assess their understanding of ESG parameters, which we believe may affect the future of these companies.

Exclusions

The exclusions are Fund and mandate specific exclusions and include screening of companies and sectors involved in non-ESG activities (e.g. controversial weapons, tobacco, gambling, coal, alcohol etc.).

Stewardship

As active managers, we are committed to exercising our role as stewards of capital and hence ESG stewardship lies at the heart of our ESG approach. Active engagement is a crucial aspect of our ESG process and integration. Portfolio managers and research analysts collaborate in order to engage with companies which are part of the coverage universe. Our stewardship efforts and ongoing engagement activities enables us to identify and monitor ESG risks at portfolio company level.

Details of our approach to stewardship are available in our stewardship policy – <https://www.kotakamc.sg/ESG/Stewardship Policy>

Proxy voting

We consider proxy voting as one of the important tools in our engagement process for promoting ESG awareness. Therefore, we have a constituted an internal voting policy which guides us in this respect. Each resolution is understood in detail in terms of the ESG impact it can have. While we do consider the advice of the proxy advisor in the voting decision, the final decision is made by the fund manager post consultation with the concerned research/ESG analyst as outlined in the voting policy - <https://www.kotakamc.sg/ESG/KMAMS Voting Policy>

ESG research team

The asset management activities of various entities within the group including Kotak Mahindra Asset Management Company Limited, the domestic (Indian) asset management arm of the group and KMAMS the group's flagship offshore asset management entity rely to a significant extent on the central research team of the group. The research function is adequately resourced with qualified professionals. The central research team have the responsibility for analyzing the environmental, social and governance performance of the companies they track.

Review and monitoring

As active managers, we continuously monitor the companies in which we invest and their ESG scores. We evaluate companies on ESG parameters not only on a current basis but also monitor the changes that these companies incorporate over time.

ESG Committee

We have set up an ESG committee comprising of senior personnel to guide and oversee the ESG principles and approach for the firm. The ESG Committee sets the guidelines for investments and helps formulates and approves policies including ESG related policies and these are periodically reviewed.

Reporting and disclosure

All of our ESG related policies can be found on our public website: <https://www.kotakamc.sg/ESG>. Further, being signatories to UNPRI, we complete our mandatory reporting requirement annually and our public reporting disclosures are available on the PRI website.

References to International Standards

- UNPRI: KMAMS has been a signatory to the United Nations supported Principles for Responsible Investment (PRI) since 2018.
- Climate Action 100: KMAMS has been a signatory to Climate Action 100+ since January 2021.
- Singapore Stewardship Principles- KMAMS is a supporter to the Singapore Stewardship Principles (SSP) for Responsible Investors since December 2021.