



## HDFC Life Insurance Company Limited

### Stewardship Policy Ver2.0

#### Document History:

S.N	Action	Function	Name	Approval Date
1.	Created By	Investment Front Office		03-May-2017
2.	Concurred By	Investment Mid & Back Office		03-May-2017
3.	Concurred By	Compliance		03-May-2017
4.	Concurred By	Compliance		17-Apr-2020

#### Change History:

S.N	Action	Description of Change	Approval Date
1.	New Policy	New Policy	03-May-2017
2.	Revised Policy	Revision of policy in view of the " <i>Guidelines on Stewardship Code for Insurers in India</i> " of 2 February 2020	17-Apr-2020

# **Content**

- 1. Introduction**
- 2. Effective Date**
- 3. Disclosure**
- 4. Key Principles**
- 5. Managing Conflicts of Interest**
- 6. Monitoring of investee companies**
- 7. Active intervention in the investee companies**
- 8. Collaboration with other Institutional Investor**
- 9. Voting and disclosure of voting activity**
- 10.Engagement of External Advisors:**
- 11.Training of Personnel**
- 12.Public Disclosures**
- 13.Operating framework for details**

## **1.0 Introduction**

HDFC Life Insurance Company Limited (HDFC Life) as a part of its regular business activities invests in equity securities issued by companies (investee company). As a part of this activity, the investment team is expected to monitor and engage with the investee companies on issues like strategy, business performance, corporate governance and other related issues in order that the best interest of the policyholders' are protected. The investment team is also expected to exercise the voting rights attached with these investments that are held as custodians of policyholders' savings. This document sets out the principles and the policies to be followed by the investment function regarding the engagement with the management of the investee companies, voting on resolutions pertaining to the investee companies and disclosures relating thereto.

This policy will be referred to as the 'Stewardship Policy' for HDFC Life.

## **2.0 Effective Date**

This Policy will be effective from the date of its approval by the Board of Directors of the company.

Any material changes in the policy will also be approved by the Board of Directors and will be effective only post the approval of the changes.

## **3.0 Disclosure**

This policy, as amended from time to time, will be disclosed on the website of the company along with other public disclosures. Any change or modification to the policy will also be disclosed at the time of updating the policy on the website.

The company will also file a status report to IRDAI on an annual basis, indicating the compliance with the principles laid down in this policy. Non-compliance, if any, will also need to be reported along with the reasons / justifications for the same.

#### 4.0 Key Principles

- Oversight of Stewardship activities of HDFC Life shall be undertaken by the Investment Committee, constituted as per the Guidelines issued by IRDAI for Corporate Governance for insurers in India. The Investment Committee shall be responsible for monitoring implementation of the Stewardship Code duly approved by the Board.
- The Investment Committee will set a threshold level beyond which the exposure to the investee company will be deemed to be 'meaningful'. The threshold level will help in determining the level of engagement and intervention with the investee company. The Investment Committee can amend the threshold level based on experience.
- The investment team of HDFC Life will be responsible for ongoing monitoring of the investee companies and will also be responsible for engaging with the managements of the investee companies. The investment team will seek guidance and approvals from the Investment Committee with respect to the engagement and intervention with the investee companies. An appropriate operating framework / guidelines shall be put in place, along with Risk / MO team, for such monitoring on ongoing basis.
- As a policy, HDFC Life will not seek to nominate its representative on the Board of an investee company based on its investments in the investee company, unless such investment is strategic in nature and / or the Investment Committee decides that a nominee is warranted. The Investment Committee, in that case, will recommend nomination of members on the Board of investee company, to the Board of HDFC Life. Once such approval is received, HDFC Life will take up with the investee company, for nomination of its representative to be inducted as a director on the Board of the investee company. The person so nominated will follow the code of conduct prescribed by HDFC Life for its nominee directors.
- The Investment Committee shall approve / ratify proposals to use the services of any external service providers to support the investment team / Investment Committee in discharging its stewardship responsibilities. In case the Investment Committee engages an external agency, scope of services that it proposes to avail must be specified in the operating guidelines.

#### 5.0 Managing Conflicts of Interest

HDFC Life is part of a large and diversified financial services group with many affiliates and related companies. The voting for company resolutions may entail some instances of a conflict of interest between the interests of shareholders of HDFC Life and the policyholders' interests. Some of the key instances are as under –

- Potential conflicts involving business relationships of HDFC Life versus policyholder interest
- Conflicts involving shareholder/promoter/affiliates/director/key employee(s) interests versus policyholder relationships

To avoid any potential conflict of interest involving business relationships, HDFC Life will ensure clear segregation of voting functions (pursuant to this Policy / Voting Policy) and the client relations /sales functions.

Investment team shall endeavor to resolve all conflicts of interest keeping in mind the overall interest of the policyholders. In resolving any conflict of interest that arises, the long-term interests of policyholders will be kept in mind. For resolving a conflict of interest, the Investment team may:

- Referral to Investment Committee: In the event of an actual/ potential conflict of interest, the investment team may consult with the Investment Committee to decide whether to vote or abstain from voting and also the manner of voting (if required) in relation to the resolution of the relevant investee company. The Investment Committee may refer an issue to the Audit Committee, if deemed necessary and appropriate.
- Recusal in case of conflict of interest: Where a conflict of interest situation arises in relation to a director/key employee of HDFC Life, the person having the actual/ potential conflict of interest may be asked to recuse himself/herself from participating in the voting process.
- Ban on future investment: The Investment Committee of HDFC Life may also decide to ban future investments completely in relation to an investee company, where such investment is deemed to be against policyholder interests and where the Investment Committee is of the view that it will not be possible to adequately resolve future conflicts of interest. In such case, decision may also be taken to liquidate the investment (if required).

The nature of investment of HDFC Life varies for different investee companies and the relationship of HDFC Life (and its directors/employees) with the investee companies (and its directors/ employees) may evolve and change over a period of time. The investment team shall periodically monitor the relationship with the investee companies to identify conflicts of interest. As a rule, in all cases of conflicts of interests the voting decisions of HDFC Life will be based on the overall best interests of the policyholders.

The Investment Committee shall address an actual/potential conflict of interest on a case-by-case basis.

## 6.0 Monitoring of investee companies

- The investment team will monitor all the companies in which HDFC Life has invested. Monitoring will include but need not be restricted to company strategy and performance and industry information, management evaluation, corporate governance issues, capital structure, related party transactions and key risk areas. Monitoring on areas like succession planning, remuneration, Environmental, Social and Governance (ESG) risks, and shareholder rights and their grievances will be on a best effort basis. The investment team will use publicly available information on company strategy and performance and industry information to monitor these companies. While endeavor would be to ensure at least one meeting with such investee companies in a year, there can 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 which is being provided by the management. In such cases, it is possible that the monitoring is through other sources.
- While monitoring and dealing with the investee companies, the employees of HDFC Life may gain access to unpublished price sensitive information. With regard to such information employees of HDFC Life will be required to comply with the procedure set out under [HDFC Life's Prevention of Insider Trading Policy] to ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015.

## 7.0 Active intervention in the investee companies

Concerns may arise with respect to the investee companies from time to time mainly on account of insufficient disclosure of information, poor financial performance of the company, remuneration, ESG risks, leadership issues, litigations, inequitable treatment of shareholders, governance issues, related party transactions, corporate plans/ strategy, or any other related matters, which impacts the value or liquidity of HDFC Life's investment.

The decision to intervene may be taken by the investment team:

- (a) in relation to an investee company in which HDFC Life has an aggregate exposure equal to or greater than 3% of its total equity AUM or holds more than 3% of the share capital of the investee company, and
- (b) where, in the investment team's opinion, the issue is material\*, and involves, including but not limited to, insufficient disclosure of information, poor financial performance of the company, remuneration, ESG risks, leadership issues, litigations, inequitable

treatment of shareholders, governance issues, related party transactions, corporate plans / strategy, or any other related matters;

*\*Materiality of an issue shall be determined by the investment team on a case-by-case basis.*

HDFC Life shall not generally intervene in case the investment is already earmarked for divestment or post planned divestment holding will be below threshold level, intervention may not be considered, unless there are other factors which in the investment team's opinion warrants intervention.

The Investment Committee may revise the limit of above threshold levels for engagement / intervention in the activities of the investee company wherever appropriate. HDFC Life may consider intervening in relation to issues below the earmarked thresholds, if in the reasonable opinion of the Investment Committee, intervention is required to protect the value or liquidity of its investment, the reputation of HDFC Life, and discharging its stewardship responsibility.

In most cases, need for intervention may not arise if proper disclosures are made. However, in cases where the investment team is not satisfied with the level of disclosures it may engage with the investee company as follows:

**Step 1: Interaction**

In such instances, HDFC Life as an active shareholder will seek to engage with the investee company's management to discuss the concerns and apprehensions and actions to mitigate the concerns. The interactions must be held with the company personnel authorized and empowered to act on the areas of concerns.

**Step 2: Reiteration**

If there is no response from the management or there is any lack of follow-up action as promised despite the passage of a reasonable period of time, HDFC Life may re-engage with the management to reiterate the conclusions or the plans of action decided at the prior meetings. A time bound plan to rectify or re-align the business practices or actions should be discussed and agreed upon.

**Step 3: Escalation**

In case there is no progress despite the first two steps, the matter will be discussed at the Investment Committee of HDFC Life for further escalation to the Board of Directors of the investee company. If the Investment Committee decides to escalate, the communication to the Board of the investee company should elaborate on the concerns, the past requests for engagement with the management of the company, the past discussions and the agreed course of actions.

**Step 4: Reporting to regulators/authorities**

Only in exceptional cases, where the concerns relate to matters of public interest or public laws, if there is no response or no action taken by the investee company despite the escalations as mentioned earlier, The Investment Committee may decide to report to the relevant regulator, authority or any Government body or refer the matter to the insurance council as may be required.

In all cases of engagement with the management and / or the Board of Directors of the investee company, all communications and discussions are to be conducted in private and confidential manner. The objective of the interactions is to play a constructive role in enhancing the value of the investment in the equity of the investee companies to benefit the policyholders of HDFC Life.

## **8.0 Collaboration with other Institutional Investors**

- In select cases, the nature of the engagement with the investee company management or the issues involved in resolutions that need to be voted upon by shareholders, may have an impact on all institutional shareholders of the investee company.
- In some cases, collaboration with other investors may be the most effective manner to engage with the investee companies. Collaborative approach is not only cost effective, it is efficient and potent as well and is likely to deliver the desired results.
- Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.

HDFC Life may choose to engage with the investee company through consultations with the other institutional investors, with those whose interests are aligned with HDFC Life, in order to have a wider group of investors representing a larger proportion of shareholders to engage with the company. HDFC Life may also choose to involve industry associations or forums to engage with the investee company, if appropriate.

It is only when we believe collaborative action would be an effective means by which investors can exercise appropriate influence, we will willingly initiate action or support other investors' actions.

In taking collaborative action we would be cognizant of legal and regulatory requirements, including on market abuse, insider dealing and concerted party regulations

## **9.0 Voting and disclosure of voting activity**



The investment team shall review all voting proposals for routine as well as non-routine items. Voting activity will be undertaken if the investment in the company is above the defined threshold level for voting. However, the investment team may vote in investee companies where the investment is below the defined threshold level, depending on the seriousness of the issue.

Reference may be made to the Voting policy approved by the Investment Committee of the Board of HDFC Life. This Policy lays down the rules related to voting on the issues related to the investee companies.

Stock lending and recalling activities, if any, shall be as per guidelines in Investment Policy as approved by Board.

### **10.0 Engagement of External Advisors:**

For the purpose of undertaking investments, HDFC Life may engage services of external agencies like investment advisors, consulting firms, survey firms, etc. However, investment remains the core function of HDFC Life and the ultimate decision regarding the engagement/intervention in the activities of the investee company will rest with HDFC Life

Such external advisors may be engaged to provide inputs, information and advice to HDFC Life in relation to the investment in the investee company. The nature of services provided by such external advisors may *inter alia*, include market survey data, industry wide analysis, business valuation, etc. The inputs / recommendations provided by such investment advisors, consulting firms, survey firms, etc to the investment team will be purely advisory in nature and shall not be binding on HDFC Life to act as per the recommendations of the external advisors. The ultimate stewardship responsibilities as set out under this Stewardship Policy shall be discharged by HDFC Life.

### **11.0 Training of Personnel**

HDFC Life will ensure that adequate training with respect to compliances stipulated under this Stewardship Policy is imparted to its personnel and employees who are engaged in the investment function of HDFC Life, in any way. A training session to the relevant employees will be conducted on a yearly basis outlining the guidelines and measures that are required to be kept in mind for fulfilling the stewardship responsibilities of HDFC Life. The training of any new director / employee who is a relevant member of the investment team or a member of the Investment Committee, will be conducted within 30 days of his / her joining.

### **12.0 Disclosures**

At a quarterly frequency, HDFC Life will disclose all the activities undertaken by the investment team, as mandated by the Investment Committee, in regard to implementing this stewardship policy and discharging its responsibilities, on its website, as part of public disclosures. The disclosures will also include the votes cast by HDFC Life at all the resolutions put forth by the investee companies for shareholders' approval.

### **13.0 Operating framework for details**

The investment team shall put in place necessary operating framework / manual for detailing on how actions / decisions will be taken in respect of various activities mentioned above.