JUNE 2023

RESPONSIBLE INVESTMENT & ESG INTEGRATION

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ESG Integration at UTI AMC

The past few years have seen a range of events – the pandemic, heatwaves and cyclones, to the Russian invasion of Ukraine – that demonstrate the relevance and breadth of responsible investing. UTI Asset Management Company (UTI AMC) believes investing responsibly is the right thing to do and better-run companies that emphasize on mitigating potential ESG risks, make better investments.

We conduct an in-depth assessment of material ESG risks and opportunities of all the companies under our ESG coverage, leveraging the SASB industry-level materiality map and internal ESG framework as our guide. Our focus on materiality is aimed at accounting for the most relevant ESG factors that could have a significant impact on an investee company's financial or operating performance. Out of the 333 companies of our equity universe, all the 333 companies (100%) have been brought under our ESG coverage over the last 20 months.

UTI AMC is into its second year of ESG Integration. This report captures UTI AMC's efforts to integrate environmental, social and governance (ESG) factors into the investment practices over the last six months and will focus on providing an update on UTI AMC's stewardship activities such as engagement with investee companies and execution of proxy-votes. The report also highlights recent improvements in regulations by SEBI, such as BRSR CORE which will enhance ESG disclosures of our investee companies. Further, UTI AMC is delighted to share the improvement in the firm's ESG risk rating & score in FY23.

Stewardship

As an asset manager, it is our prime responsibility to safeguard our investors' interests through monitoring and regular engagement with investee companies on financial performance, ESG risks, opportunities, and disclosures.

We believe consideration of financially material environmental, social and governance (ESG) factors must be considered in the investments we make. Further, regular engagement with investee companies has a positive cumulative effect and can improve their practices, governance, and oversight, and help investee companies manage their impact on society and the environment and improving ESG credentials overtime.

a) Engagements : UTI AMC is committed to being responsible investor and as an active asset manager with a long-term investment view, company engagement is an activity that many of our investors have come to expect from us. This is reflected in the way that we engage with companies we invest in.

Engagement with investee companies has been an integral part of our approach to investment and ESG. We use it not only to understand how companies consider issues related to ESG but also encourage to adopt best practices, for the purpose of enhancing returns. Engagement is a collaboration between portfolio managers, research analysts and the ESG analyst, each bringing a different perspective to our interactions with the investee companies.

Our regular engagements, which primarily focus on financial performance and management discussions, cover 275 investee companies. We have engaged with 42 companies in the last six months. We continue to believe that the number of ESG focused engagements will increase over the coming years, as the adoption of BRSR reporting (Business Responsibility & Sustainability Report) is mandatory from FY 2023.

We engaged with the investee companies in various modes as mentioned below:

One-on-One Engagement: with company management: Since January 2023, we have had One-on-One engagements with 39 companies from various sectors.

ESG Questionnaires: We have sent questionnaires to 3 investee companies seeking data pertaining to ESG parameters and performance.

We also monitor the occurrence of controversies, assess the actions that followed, past incidents, and leverage insights from our stewardship activities to better inform our decision-making process.

Our engagement activities typically fall into one or more of three different categories:

ESG Risk/ Opportunity Engagements

This relates to material ESG-related risks or opportunities identified by portfolio managers, financial analysts and ESG analysts via our company assessments.

Controversy Based Engagement

This addresses companies that are involved in ESG-related incidents/ controversies.

Thematic Engagement

This is initiated for investee companies with the most material exposure to one or several of our key focus areas such as circular economy, climate change and environment impact, human rights and good governance.

Case Study

1) Focus Theme: De-carbonisation Strategy of a Cement Company

Background: Cement is one of the most environmentally sensitive sectors with significant carbon footprint. It is the second-highest greenhouse gas (GHG) emitter in the industrial sector after iron and steel, accounting for ~7% of global CO2 emissions.

India continues to be a global leader in the pathway to decarbonizing the cement sector, with a 30% reduction in carbon intensity over the past three decades versus the global average of 20%. This would be largely because of the modern state-of-the-art plants and the long-term climate commitments made by big Indian players.

We engaged with one of India's largest cement companies, which is a part of our investment universe, to understand their de-carbonisation strategy and roadmap that will help them achieve their Net Zero commitment.

Engagement: In response, the company informed us about its efforts to decarbonize its cement manufacturing operations. The company is a member of Global Cement and Concrete Association (GCCA), and has aligned its endeavour to follow GCCA's roadmap to Net Zero Concrete by 2050. The company further stated that it is committed to reduce scope-1 GHG emissions by 12.7% per tonne of cementitious materials by 2030 from a 2019 base year. It is also committed to reduce scope-2 GHG emissions by 27.1% per tonne of cementitious materials within the same timeframe. These targets have been validated by Science Based Targets initiative (SBTi).

The company manufactures Portland Pozzolana Cement (PPC), Portland Slag Cement (PSC) and Composite Cement (CC), a type of blended cement. Blended cement contributes to sustainable design by reducing consumption of natural resources such as limestone and by lowering greenhouse gas emissions. Blended cement (75.56% share of blended cement in total revenue) also contributes to a circular economy by utilising waste such as slag from iron and steel plants and from power plants.

Further, the company has the largest WHRS- (Waste Heat Recovery System) based power generation capacities in India. It has met 48.2% (41.4% in FY2019) of its total power consumption by using green energy in FY2022. The company has a target of increasing the green energy portfolio to 341.5 MW by FY2023 (FY2022: 263 MW) and of increasing the thermal substitution rate to 5% (FY2022: 2.4%). Moreover, the company is striving hard to minimise its freshwater consumption. The treatment and reuse of wastewater and trade effluent and water conservation measures have largely reduced its freshwater consumption. Rainwater harvesting initiatives have helped the company remain 5 times water positive.

Outcome: The company has reduced its Specific Net Scope 1 CO_2 Emissions per tonne cementitious material from 554 Kg CO_2/tonne in FY 2018-19 to 530 Kg CO_2/tonne in FY 2021-22 and has avoided nearly 6.04 mn tonnes of CO_2 emissions in FY 2021-22.

We find comfort that the company, a part of the hard-to-abate sector, is committed to reduce their emissions from cement production and is leveraging green power generation capacity (WHR, wind and solar) and use of alternative raw materials to produce cement. We will be monitoring the company's progress on the emission reduction targets and will continue to press on their decarbonization progress.

Case Study

2) Engagement with a technology consulting company, which is subject to a controversy.

Context: One of the ESG rating agency has classified the technology company and its parent company (engineering conglomerate), to be involved in manufacturing and distribution of controversial weapons such as cluster weapons. Our interaction with the company was to understand the reason, progress and necessary steps taken to resolve this controversy.

Engagement: In response, the company informed us that both the parent company and the technology company have been erroneously categorized to be involved in manufacturing and distribution of cluster weapons due to the parent company's involvement in defense business.

The parent company and the technology company have engaged with the ESG Rating agency and have provided them with subject matter expertise and documents to resolve this issue. The parent company clarified to the rating agency that it does take on defense related orders from time to time, however, the segment accounts for less than 2% of group level revenue over the last 6 years.

In India, ammunitions are manufactured only in ordinance factories (public sector entities operating under the Ministry of Defence), and none of the public listed companies are allowed to produce ammunitions.

The parent company has disclosed in its Integrated Report FY19-20, FY20-21 and in FY21-22, which is in public domain, that it does not manufacture any explosives or ammunition of any kind, including cluster munitions or anti-personnel landmines or nuclear weapons, nor does it customize any delivery systems for such munitions. Further, the company also stated that none of its subsidiaries are involved in production or distribution of controversial weapons, nuclear weapons and landmines.

However, the rating agency has not changed their stand on this matter as they are driving their decisions based on unverified articles in public domain and continues to flag the parent company and its subsidiaries (including the technology company) to be involved in production of cluster munition warheads/weapons.

Our view & Conclusion: Based on the company's explanation to the rating agency and disclosures on non-involvement in controversial weapons in its Integrated report, which is in public domain, we believe the company and its subsidiaries have been misclassified and erroneously flagged for being involved in production or distribution of controversial weapons.

b) Proxy Voting: As a responsible investor and as part of our fiduciary responsibility and stewardship duty, UTI AMC is obliged to act in the best interests of our investors, through proxy voting. This includes exercising voting rights attached to the equity shares in which Mutual Fund Schemes invest. We regularly review our Voting Policy, supporting guidelines and procedures to appropriately address emerging trends and practices.

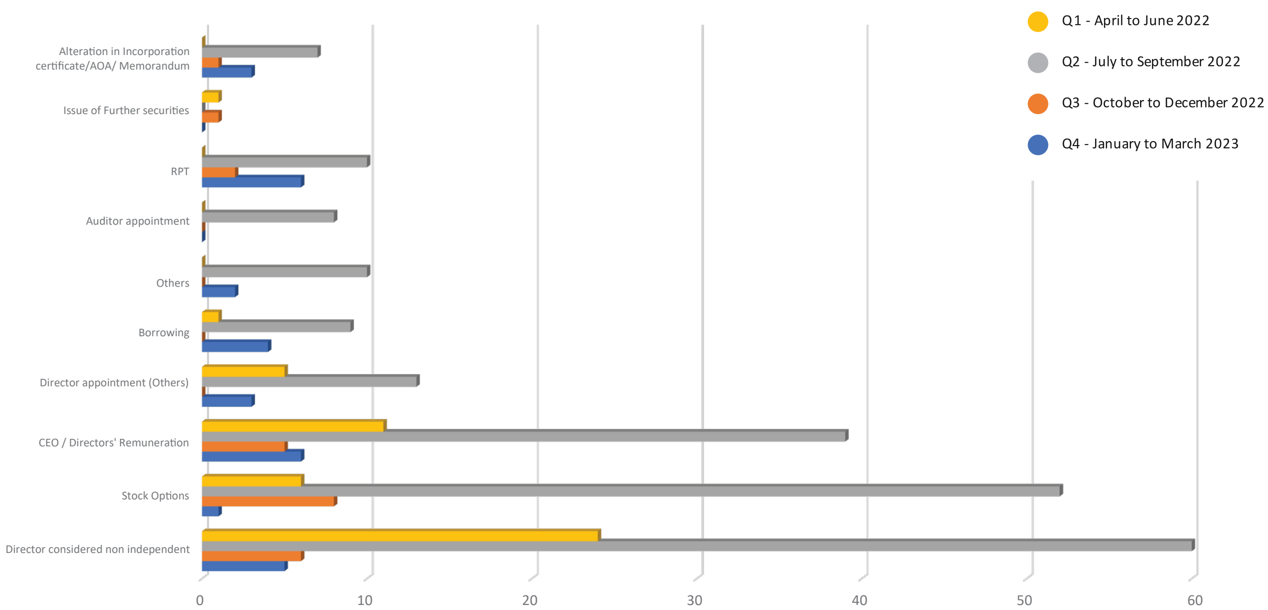
Voting Summary: In the financial year 2022-23, from April 2022 to March 2023, we had 3497 resolutions to cast our vote on. We have voted 'FOR' 3188 resolutions and have voted 'AGAINST' 309 resolutions (8.8% of total resolutions).

Data on Proxy Voting:

Summary of proxy votes cast by UTI Mutual Fund across all the Investee Companies						
Summary of Votes cast during the Financial year 2022 - 23						
F.Y.	Quarter	Total no. of Resolutions	Break-up of Votes		
			FOR	Against	Abstained
2022 – 23	Quarter 1 - April to June	631	583	48	0
2022 – 23	Quarter 2 - July to September	2402	2194	208	0
2022 - 23	Quarter 3 - October to December	229	206	23	0
2022 - 23	Quarter 4 - January to March	235	205	30	0
2022 - 23	**April to March 2022-23**	**3497**	**3188**	**309**	**0**

For more information on Proxy Voting, kindly follow the link
https://www.utimf.com/about/statutory-disclosures/voting-policy/

Category of resolutions voted "Against":



Examples of the Resolutions where we have voted 'Against'

Company	Resolution	Rationale for Voting Against
Retail Company	Approve revision in limit for intercorporate transactions to Rs 15.0 bn over and above the limits under section 186 of Companies Act	Based on the current networth, the revised limit aggregates ~Rs. 43.5 bn. We do not favour rolling limits linked to net worth and recommend that companies seek approval for a fixed intercorporate transaction limit. Further, the company must disclose the existing utilization of limit under section 186 and the rationale for proposed increase in limit while seeking shareholder approval.
Building Material Company	Reappoint Mr X as Independent Director for five years from 11 April 2023	Mr X is the Chief Executive Officer Worldwide and Executive Chairperson of company ABC. The building material company regularly obtains services from company ABC. We believe that these business transactions may impair the objectivity and independence of Mr X as an independent director. Given the potential conflict of interest, we do not support his reappointment as an independent director.
Cement Company	Appoint Mr Y, as Independent Director for five years from 1 July 2023 and approve continuation of his directorship on attaining 75 years of age	Mr Y has been on the board of one of the Cement company's group company from May 2014. We don't support his appointment as independent director as aggregate association with the group including the proposed term will exceed 10 years.

SEBI introduces BRSR Core framework to enhance ESG disclosures reliability:

Business Responsibility & Sustainability Reporting (BRSR): The Securities and Exchange Board of India (SEBI), in its continued efforts to enhance disclosures on ESG standards, approved the regulatory framework for ESG disclosures, ratings and investing on March 29, 2023.

This is a step in the right direction to:

1. Achieve the twin objectives of improving credibility and limiting the cost of ESG compliance for corporates
2. Integrate parameters that are relevant for ESG ratings in the Indian context

BRSR Core:

Listed companies will be required to disclose and obtain a reasonable assurance on the Business Responsibility and Sustainability Report (BRSR) Core parameters, which comprises less than 50 quantifiable and comparable KPIs, initially be applicable to the top-150 listed entities (by market capitalization) from FY2024, and then gradually extend to the top- 1,000 listed entities by FY2027.

Sample of KPIs to be monitored under BRSR Core:

Attribute	Description
Change in GHG footprint	Scope 1 & 2 emissions and intensity
Change in water footprint	Water Consumption and intensity
Investment in reducing environmental impact	Amount of R&D invested in technologies
Embracing circularity	Breakdown of waste management across eight categories
Employee Well-being & safety	Amount spent (% of revenue) on employee wellbeing initiatives (incl. health insurance, day care, maternity benefits, etc and details on safety-related incidents
Gender Diversity	% of wages paid to women and complaints on POSH
Inclusive Development	% of materials sourced from MSMEs, small producers and job creation opportunities in small towns
Fair engagement with customers & suppliers	Number of days of accounts payable and % of negative media sentiment
Open-ness of business	Conducting business with concentrated (limited) parties along with loans and investments made to related parties

Source: Nuvama Research

Further, ESG Rating Providers (ERPs) will be required to integrate ESG parameters that are unique to the Indian/emerging market context in their ESG ratings. They shall also offer a separate category of ESG ratings, i.e., ‘Core ESG Rating’, based on the assured parameters under BRSR Core.

It is expected that improved regulations such as BRSR will help asset managers leverage enhanced level of ESG disclosures to integrate ESG factors into investment decisions, which will lead to superior risk-adjusted sustainable returns.

The below factors would be critical enablers:

a) Improved ESG disclosures and enhanced quality of data

b) Improved ESG analysis and integration

c) Increased transparency & Improved risk management

As of June 2023, 190 listed companies have published BRSR reports. From our investment universe, 89 investee companies (27%) have published BRSR reports. We expect the number of companies publishing BRSR would significantly increase in the coming years.

	Sectors	Companies	BRSR Reporting
1	Construction & Engineering	38	6
2	NBFC	22	5
3	Banking & Finance	17	6
4	Retail	12	1
5	Cement	9	4
6	Logistics	8	2
7	Chemical Group	21	8
8	Technology	28	13
9	Oil Gas & Petrochem	12	
10	Auto Ancillary	21	5
11	Pharma	32	6
12	Building Materials	11	5
13	Auto OEMs	9	6
14	Metals	12	2
15	Hospitals, Diagnostics & Devices	9	1
16	FMCG	23	6
17	Telecom	2	
18	Consumer Durables	16	5
19	Hotels	2	1
20	Real Estate	6	1
21	Power Utilities	7	1
22	Media & Entertainment	1	
23	Sugar	1	
24	Airlines	1	
25	Insurance	8	3
26	Asset Management Companies	3	2
27	QSR	2	
	Total	**333**	**89**

Source: UTI Research

UTI AMC ESG Ratings:

In 2021, UTI AMC received an ESG Risk score of 32.9 and was assessed by Sustainalytics to be at 'High risk' of experiencing material financial impact arising from ESG factors.

We are very happy to inform our investors that our Sustainalytics ESG rating has improved from 'High risk' to 'Medium risk' and our ESG score has improved from 32.9 to 24.1 in 2023.

Rated

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We recognize that there is further scope of improvement in our scores and will strive to adopt industry best practices, programs and policies and improve our disclosures in the public domain. This will help us improve and strengthen our ESG credentials.

Continuing Journey

UTI AMC will continue to evolve its Responsible Investment Framework. We are tasked with generating superior risk adjusted returns for our investors. We strive to invest in companies that demonstrate sound environmental practices, are cognizant about their responsibility to society as corporate citizens and follow good governance practices.

The ESG disclosures and reporting standards of Indian companies will expand in depth and breadth in the future. This information along with our ESG Framework will allow us to offer, based on client mandate and demand, new products that cater to Socially Responsible Investing and Impact investing. These products could follow an exclusionary approach of ESG integration; could be based on a particular theme or investments that are targeted towards achieving a pre-specified, measurable impact on the society.

We have initiated integrating ESG factors into our Fixed-income investment decision-making process. We will publish updates regarding our progress on Responsible Investment & ESG integration every six months, next update due December 31, 2023.

ANNEXURES

Source: UTI Research

ESG Equity Coverage

Below is the sector wise breakdown of our coverage. The chart also highlights the sectors that we have prioritized to have ESG related dialogues and engagements.

Sectors	Companies	ESG Coverage	Completed (%)	1-1 Engagement	Questionnaire
Construction & Engineering	38	38	100%	5	
NBFC	22	22	100%	2	
Banking & Finance	17	17	100%		
Retail	12	12	100%	3	
Cement	9	9	100%	3	
Logistics	8	8	100%		
Chemical Group	21	21	100%	3	1
Technology	28	28	100%	6	
Oil Gas & Petrochem	12	12	100%		
Auto Ancillary	21	21	100%	1	
Pharma	32	32	100%		1
Building Materials	11	11	100%	3	
Auto OEMs	9	9	100%		
Metals	12	12	100%	2	
Hospitals, Diagnostics & Devices	9	9	100%	5	
FMCG	23	23	100%		
Telecom	2	2	100%		
Consumer Durables	16	16	100%	3	
Hotels	2	2	100%	1	
Real Estate	6	6	100%		1
Power Utilities	7	7	100%		
Media & Entertainment	1	1	100%		
Sugar	1	1	100%		
Airlines	1	1	100%		
Insurance	8	8	100%	1	
Asset Management Companies	3	3	100%	1	
QSR	2	2	100%		
Total	**333**	**333**	**100%**	**39**	**3**

Source: UTI Research

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