DECEMBER 2022

RESPONSIBLE INVESTMENT & ESG INTEGRATION

> I do not want to foresee the future. I am concerned with taking care of the present. God has given me no control over the moment following.
>
> \- Mahatma Gandhi

Signatory of:

PRI Principles for Responsible Investment

UTI Asset Management Company Limited (UTI AMC) is a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2020. The UNPRI (UN-backed organisation) is an international network of leading investors, asset managers, owners and service providers who work together to put responsible investing measures into practice.

This report encapsulates UTI AMC's responsible investment and ESG integration progress over the last six months. In this report we focus on our ESG equity coverage universe, engagement with investee companies and execution of proxy-votes. This report also highlights recent regulations that are expected to significantly enhance ESG disclosures of Indian companies.

ESG Equity Coverage

Out of the 335 companies in our equity universe, **330 companies (99%)** have been brought under our ESG coverage over the last 14 months. Below is the sector-wise breakdown of our coverage. The table also highlights the sectors that we have prioritised for ESG-related dialogues and engagements.

Sectors	Companies	ESG Coverage	Completed (%)	1-1 Engagement	Questionnaire
Construction & Engineering	37	37	100%	5	2
NBFC	24	23	96%		
Banking & Finance	18	18	100%		
Retail	11	11	100%	2	
Cement	10	9	90%	3	
Logistics	7	7	100%	1	
Chemical Group	20	20	100%	4	1
Technology	28	28	100%	1	
Oil Gas & Petrochem	13	13	100%		
Auto Ancillary	22	20	91%	2	
Pharma	30	30	100%	2	9
Building Materials	11	11	100%	1	
Auto OEMs	9	9	100%	1	
Metals	12	12	100%	3	
Hospitals, Diagnostics & Devices	9	8	89%	1	
FMCG	24	24	100%	1	
Telecom	2	2	100%	1	
Consumer Durables	17	17	100%	2	
Hotels	2	2	100%		
Real Estate	6	6	100%	1	
Power Utilities	7	7	100%	1	
Media & Entertainment	3	3	100%		
Sugar	1	1	100%		
Airlines	1	1	100%		
Insurance	6	6	100%		
Asset Management Companies	3	3	100%		
QSR	2	2	100%	1	
Total	**335**	**330**	**99%**	**33**	**12**

Source: UTI Research

The pending companies in the investment universe are primarily those that have listed recently via an Initial Public Offering. We expect to attain near 100% ESG coverage by March 2023.

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 is an important part of the investment process.

a) Engagements : 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 them 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 already engaged with 45 companies in the last six months. And, we believe that the number of ESG-focused engagements will continue to increase over the coming years, as the adoption of BRSR (Business Responsibility and Sustainability Reporting) becomes mandatory from FY 2023.

We engaged with the investee companies in the following two modes:

One-on-One Engagement: Since June 2022, we have had one-on-one engagements with 33 companies across various sectors.

ESG Questionnaires: We have sent questionnaires to 12 investee companies seeking data pertaining to ESG parameters and performances.

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
Focus Theme: Steel Company - Net Zero Strategy

Background: The iron and steel industry globally accounts for around 8% of total carbon dioxide (CO_2) emissions on an annual basis. In India, which is the second largest producer of steel after China, the iron and steel industry contributes 12% to the total CO_2 emissions.

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

Engagement: In response, the company informed us about its efforts to decarbonise its steel manufacturing operations. The company has set short-term, medium-term and long-term goals to align with their strategy and to contribute to India's journey towards Net Zero by 2070. The company further stated that it has a mission to bring down CO_2 emissions from the current levels of 2.42 tonnes of CO_2 per tonne of crude steel (tCO_2/tcs) in 2022 to 2.0 tCo_2/tcs by 2025 and further reduce it to 1.8 tCo_2/tcs by 2030.

To reduce carbon emission, the company has initiated a continuous injection of coal bed methane (CBM) in the blast furnace of its largest plant in the country. Further, the company promotes circular economy and has plans to produce a major portion of its steel from scrap-based production processes in the coming decade. The scrap-based electric arc furnace (EAF) production process is less carbon-intensive than the traditional blast furnace or oxygen furnace route. The company has commenced using electric vehicles for transporting finished steel and plans to upscale their pilot projects of carbon capture and utilisation (CCU) and use green hydrogen to produce steel in India.

Outcome: We find comfort that the company, a part of the hard-to-abate sector, is committed to reduce their emissions from steel production and is leveraging technology to produce green steel. We will be monitoring the company's progress on the emission reduction targets and will continue to press on their decarbonisation progress.

b) Proxy Voting: As a responsible investor and as a 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.

Voting Summary: In the financial year 2022-23, from April 2022 to December 2022, we had 3262 resolutions to cast our vote on. We voted 'FOR' 2983 resolutions and voted 'AGAINST' 279 resolutions (8.5% of total resolutions).

Data on Proxy Voting

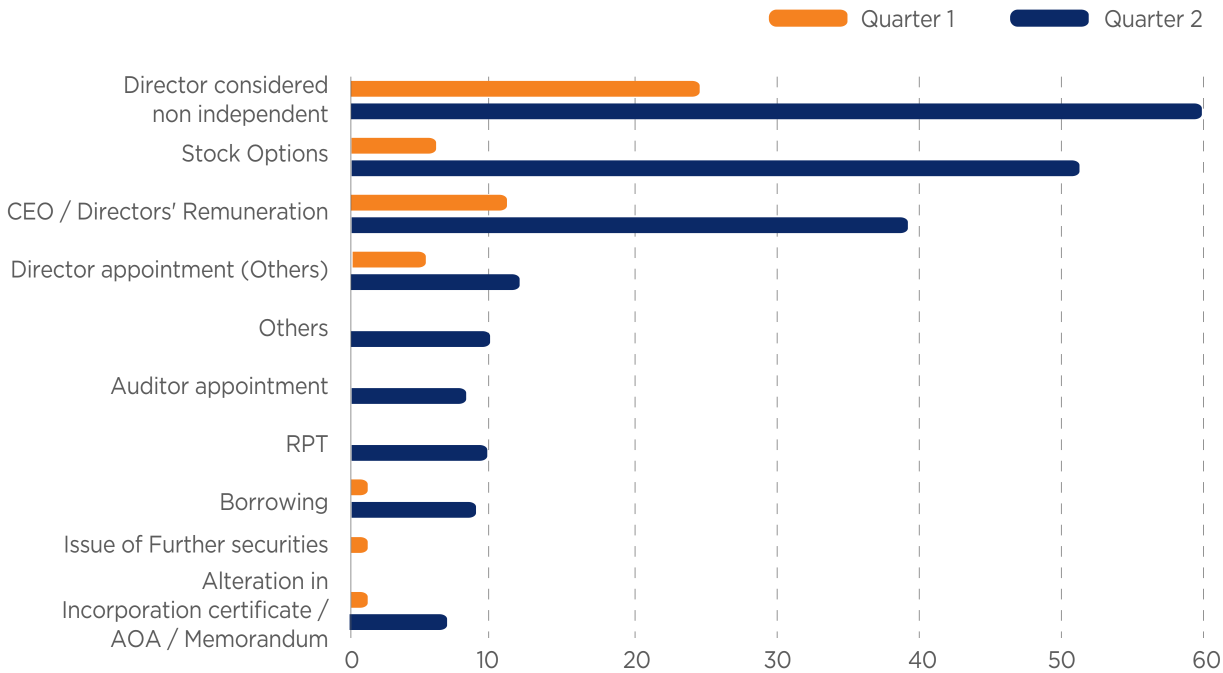
Summary of Proxy Votes Cast by UTI Mutual Fund across all the Investee Companies

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	**April to December 2022-23**	**3262**	**2983**	**279**	**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
I.T Company	Appoint Mr. X as an Independent Director for three years from November 2022	Directorship in multiple companies as well as several own ventures raise concerns about availability of bandwidth. Mr X was also associated with company ABC as an Independent Director during the period they provided capital advances to other group companies (which was the reason for qualified auditor opinion).
Pharma Company	Appoint Mr. Y as a Whole-time Director for five years from September 2022 and fix his remuneration	Higher number of promoter family members on the board of the company as well as in office of profit. This limits the company's ability to attract the right professional talent.
Building Material Company	Approve Restricted Stock Unit Plan 2022 (RSU Plan 2022) under which RSUs will be issued at face value of Re. 1 per share	The exercise price of the units will be at face value which represents a significant discount to the market price. Thus, potential total cost of scheme and subsequent impact on profitability is higher than our threshold. Also, although the company has disclosed basic performance criteria for vesting, these are generic, and there is no clarity on the percentage of RSUs that carry performance-based vesting.

Recent regulations that will enhance ESG disclosures of Indian companies:

a) Business Responsibility and Sustainability Reporting (BRSR): The Securities and Exchange Board of India (SEBI), in its continued efforts to enhance disclosures on ESG standards, introduced new requirements for sustainability.

In 2021, MCA recommended new reporting framework BRSR, thereby bringing in more granularity on levels of disclosures. BRSR's main objective is to provide a single, comprehensive source of non-financial sustainability information with more granularity. The BRSR is a material departure from BRR (Business Responsibility Report) and lays considerable emphasis on quantifiable metrics and enhanced qualitative ESG disclosures. The BRSR is mandatory for top-1,000 companies (by market capitalisation) in FY2023.

As of December 2022, 175 listed companies have published BRSR reports. From our investment universe, 93 investee companies (28%) have published BRSR reports. We expect the number of companies publishing these reports to significantly increase in the coming years.

Breakup of companies in UTI universe and BRSR reports as of December 2022:

	Sectors	Companies	BRSR Reporting
1	Construction & Engineering	37	5
2	NBFC	24	8
3	Banking & Finance	18	8
4	Retail	11	3
5	Cement	10	4
6	Logistics	7	3
7	Chemical Group	20	4
8	Technology	28	12
9	Oil Gas & Petrochem	13	2
10	Auto Ancillary	22	6
11	Pharma	30	9
12	Building Materials	11	3
13	Auto OEMs	9	3
14	Metals	12	4
15	Hospitals, Diagnostics & Devices	9	1
16	FMCG	24	5
17	Telecom	2	2
18	Consumer Durables	17	2
19	Hotels	2	
20	Real Estate	6	1
21	Power Utilities	7	2
22	Media & Entertainment	3	
23	Sugar	1	
24	Airlines	1	1
25	Insurance	6	4
26	Asset Management Companies	3	1
27	QSR	2	
	Total	**335**	**93**

Source: UTI Research

Case Study

An NBFC company has now improved ESG disclosures under BRSR. The enhanced disclosures, available in the public domain, help us understand the company's performance on certain environmental and social parameters as compared to its industry peers, as highlighted below:

Key Indicator	Explaination of Key Indicator	Pre-BRSR	Post BRSR
GHG Emissions	Although an NBFC does not impact the environment directly, we do consider GHG exmissions in analysing the environmental risks that a company may be exposed to.	No disclosure on GHG Emissions	Company has disclosed Scope1 & Scope2 emissions for FY21 & FY22
% Share of Renewable Energy	Although an NBFC does not impact the environment directly, we do consider % share of Renewable energy in analysing the environmental risks that a company may be exposed to.	No disclosures on % share of Renewable energy	Company endeavours to reduce its own GHG emissions through installation of rooftop solar power generation capacity. Discloses % share of renewable energy for FY21 & FY22
Employee Attrition	Employee attrition is an important parameter to gague employee morale and satisfaction level when analyzing a company's Human Capital management performance under the Social pillar.	No disclosures on Employee attrition	Company has disclosed employee attrition for FY20, FY21 & FY22

Source: UTI Research

b) EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR), which was introduced in 2019 and came into effect in March 2021, is a part of a new wave of European regulation aimed at building a sustainable economy. The SFDR is a disclosure regulation implemented by the European Union that strives to promote transparency and sustainability throughout the market to prevent greenwashing.

Principal Adverse Impact (PAI) on sustainability factors is used as a tool to assess investee companies' environmental and social impact. PAI is widely considered as the most challenging aspect of SFDR. PAI data is often not readily available and is difficult to collect. It is challenging to find data sources that cover a broad and extensive universe of companies and to streamline the process of aggregating and reporting PAI indicators.

Subject to data availability, we monitor the mandatory PAI indicators on an ongoing basis using an internally developed track-sheet. Company level disclosures are expected to improve from FY 2023, once Business Responsibility and Sustainability Report (BRSR) becomes mandatory to furnish, for the top 1000 listed companies as per market capitalisation. Investee companies identified as outliers on specific indicators are considered as candidates for engagement.

We initiate a dialogue with such companies to understand the reason behind deviations and then continue to monitor and track performances after the engagement, based on relevant PAI key performance indicators. Based on the data collected and analysis on certain PAI indicators, an opinion is formed on the investee company's overall performance as per these indicators, which may be considered by our investment team as a direct input into the investment process.

PAI Screening:

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

PAI	DATAPOINT
GHG Emissions	Scope 1 emissions
	Scope 2 emissions
	Scope 3 emissions
	Total GHG emissions
GHG Intensity	GHG emissions/Revenue
Carbon Footprint	Product Carbon Footprint
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
Share of renewable energy consumption	% of renewable energy of total energy consumption
Energy consumption intensity	Energy consumption in GWh per million EUR of revenue
Biodiversity	Operations located in or near biodiversity-sensitive areas
Emissions to water	Water Footprint
Hazardous waste and radioactive waste ratio	Waste Footprint

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

PAI	DATAPOINT
Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	UNGC Signatory/Anti-Corruption/Bribery Policy
Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Involvement in any controversies pertaining to violations of UNGC principles
Board gender diversity	Average ratio of female to male board members in investee companies
Gender pay gap	Male-female wage differential
Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

It is expected that regulations such as BRSR and EU SFDR 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

d) Improved risk management

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; even 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. In order to build our ESG capability and better execute our obligation of Responsible Investing we are signing up our research and investment team members for training and certifications in this domain. This quarter, **Mr. Suraj Purohit**, ESG Analyst has earned **CFA Institute Certificate in ESG Investing** and **Ms. Pradnya Ganar**, Research Analyst has earned certification for **Applied Responsible Investment from UN PRI.**

We publish updates regarding our progress on Responsible Investment and ESG Integration every six months, next update due June 30, 2023.

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