

RESPONSIBLE INVESTMENT & ESG INTEGRATION

You may never know what results come of your action, but if you do nothing there will be no result

- Mahatma Gandhi

We, at **UTI Asset Management Company Limited (UTI AMC)**, are investment managers, with more than five decades of investment knowledge, experience, and acumen. We are custodians and stewards of our investor's capital and are tasked with generating superior risk adjusted returns for our investors.

Responsible Investing has become mainstream in recent years owing to the recognition of significant externalities that a business has on the environment and society at large. Responsible Investment is a practice, which considers and integrates Environmental, Social and Governance (ESG) factors into investment decisions and active ownership. These factors have the potential to impact costs, benefits and capital allocation decisions of businesses. Thereby it impacts return on investment of the business and asset prices. The investment process considers ESG factors that could have a material impact on either investment risk or return.



We are committed to the integration of ESG factors in the investment decision-making process and have adopted a Responsible Investment Policy. This is the building block on which, in the future, we expect to manage strategies targeting enhanced positive impact on the environment and society.



Responsible Investment Policy

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

Signing the PRI signifies our commitment to responsible investment and that as asset managers, we will strive to promote strong Environment, Social & Governance (ESG) standards in the companies we invest in and consider this as an essential part of our ownership responsibilities. Aiming to preserve and enhance value for our investors, we are committed towards our role as a good steward for the assets they are entrusting us with.

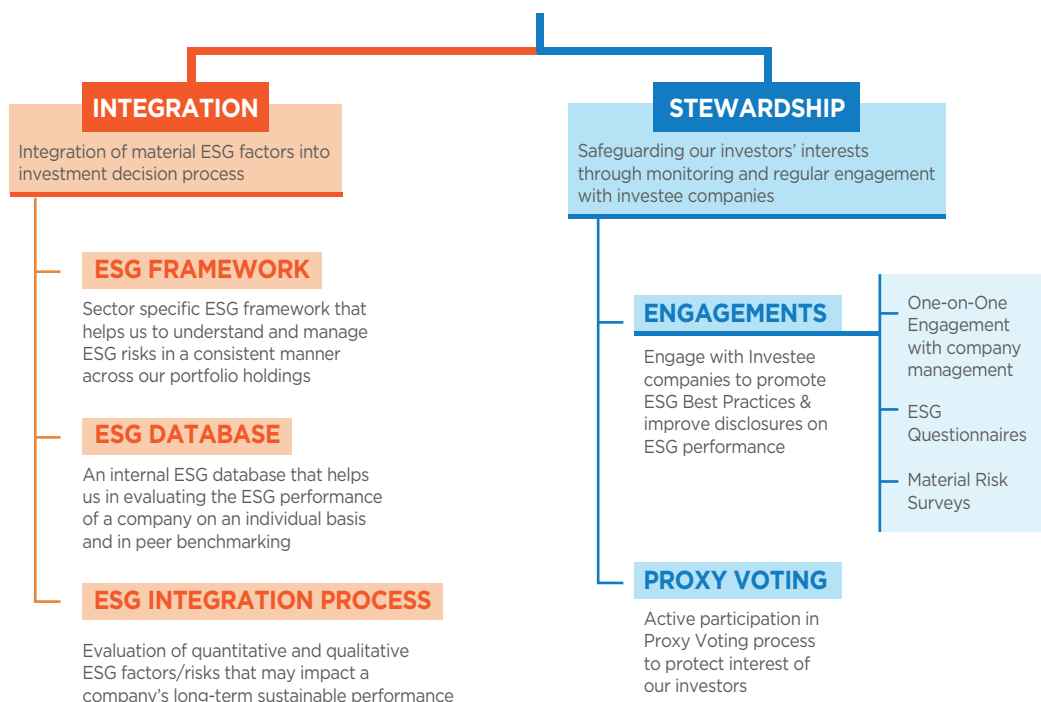
Link to our Responsible Investment Policy:

<https://utimf.com/about/statutory-disclosures/responsible-investment-policy/>

Signatory of:

Responsible Investment Strategy

Our responsible investment strategy involves two core focus areas



1. Integration

We follow an inclusive approach to analyze and integrate a company's financially material ESG factors, risks and opportunities as additional inputs, into our investment decision-making process. Exposure to ESG factors/risks may have significant impact on the long-term sustainable profitability of our investee companies. We evaluate such risks that relate to the company or industry and integrate them in our investment decision process. Integrating ESG factors, potential material risks and incorporating the cost implications stemming from such risks, requires an in-depth sectoral ESG knowledge & expertise to drive our investment decisions.

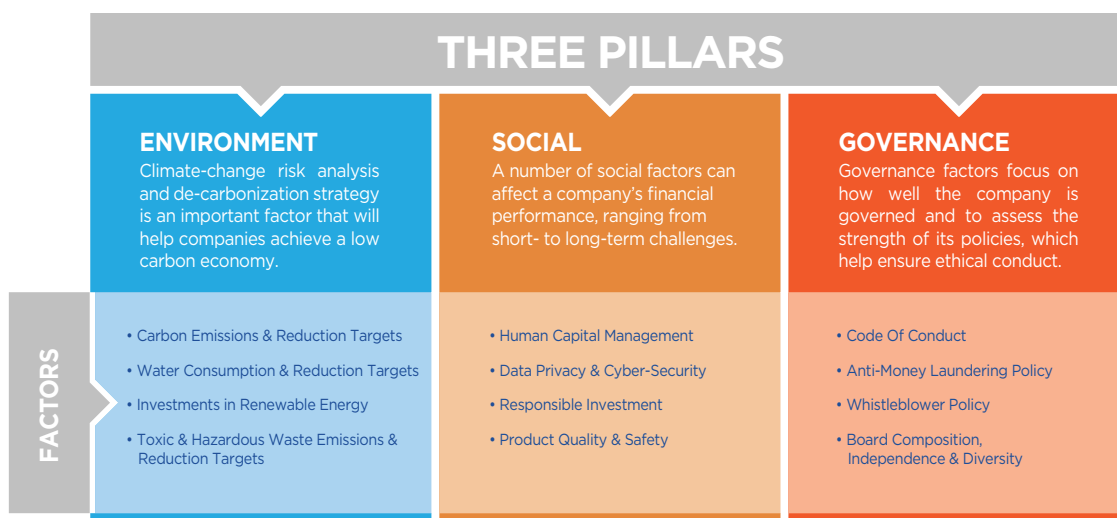
a) ESG Framework: We have created a sector specific ESG framework, which will help us to understand and manage ESG risks in a consistent manner across our portfolio holdings.

A dynamic sector-specific framework has been created by selecting relevant Key Parameters, which focus on the three pillars namely Environment, Social & Governance aspects of ESG integration. The framework has leveraged the Sustainability Accounting Standards Board (SASB) materiality framework and our sector based ESG domain knowledge and expertise. The SASB materiality framework acts as a guide in identifying the subset of environmental, social, and governance (ESG) issues most relevant to financial performance of companies within 77 industries.

Our equity coverage of 335 companies translates into 27 internally defined sectors, which are exposed to different sector specific ESG risks and opportunities. For example, the ESG risks that a cement company is exposed to, will be different when compared to risks that a bank face. **Based on the sector, a company may have a range of 4-9 key parameters and the number of data-points may vary from a minimum of 35 to a maximum of 63 qualitative & quantitative data-points, which help us in analyzing a company's ESG performance.**

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The material ESG parameters/factors under the three pillars, Environment, Social & Governance, that we consider while analyzing companies in our investment universe, which vary across sectors and industries:



The key parameters are a function of a company's operations. E.g., a cement manufacturing company, which falls under hard to abate sector (operations leading to large number of carbon emissions) will have more environment parameters as compared to a bank which will have just one parameter to gauge environmental impact from its operations. Further, we focus on 60 data-points to track and evaluate ESG performance of a cement company, whereas we track 45 data-points when analyzing a bank.

For further details, please refer [Annexure 1](#)

b) ESG Database: To evaluate a company's performance, we have created an internal ESG database (data sourced from Bloomberg, Annual Reports and Sustainability Reports) which houses up to 4 years of historical ESG data, depending on the availability of company disclosures. This helps us in evaluating the ESG performance of a company on an individual basis and in peer benchmarking. We have subscribed to a top-tier third-party Global ESG ratings provider, **Sustainalytics, a Morningstar company** which evaluates companies based on ESG risk profiles and management's ESG risk mitigating strategies. ESG performance scores/credentials are based on a company's business segments, geographic locations, exposure to ESG risks and policies & programs to mitigate such risks. The rating takes into account various environmental, social and governance issues material to a particular company. These ESG ratings reports aid us to assess a company's performance in-depth across its sectoral peer groups as well.

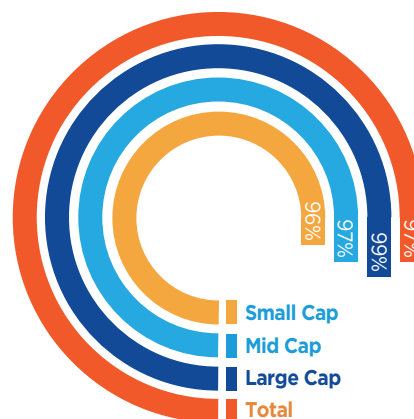
c) ESG Integration Process: Quantitative and Qualitative ESG factors/risks that may impact a company's long-term sustainable performance, are evaluated by our ESG & research analysts.

The research analysts adjust their financial analysis by linking specific aspects of the company's risk management strategy to different value drivers such as costs, revenue, Capital Expenditure and profits. The analysts then adjust their financial models and valuations accordingly, which is communicated to the investment team including the fund managers.

For further details, please refer Annexure 2

d) ESG Equity Coverage Snapshot:

Out of the 335 companies of our equity universe,
325 companies (97%)
have been brought under our ESG coverage over the last 8 months.



Below is the sector wise breakdown of our coverage and the number of key parameters as well as data-points used for our ESG analysis.

Sectors	Sector Framework	Companies	ESG Coverage	% Completed	Key Parameters	Datapoints	1-1 Engagement	Questionnaire	Company Survey
1. Construction & Engineering	Complete	39	39	100%	6	50	4		
2. NBFC	Complete	26	19	73%	7	50			
3. Banking & Finance	Complete	18	18	100%	7	45	3		2
4. Retail	Complete	14	14	100%	8	40	1		1
5. Cement	Complete	9	9	100%	7	60	2		2
6. Logistics	Complete	7	7	100%	4	35		2	
7. Chemical Group	Complete	21	21	100%	8	55		1	1
8. Technology	Complete	25	25	100%	6	37	4	2	1
9. Oil Gas & Petrochem	Complete	14	14	100%	8	62			
10. Auto Ancillary	Complete	20	20	100%	9	60	1	2	
11. Pharma	Complete	31	31	100%	8	55			1
12. Building Materials	Complete	11	11	100%	8	55			
13. Auto OEMs	Complete	9	9	100%	9	62	3	3	
14. Metals	Complete	12	12	100%	9	60	1		
15. Hospitals, Diagnostics & Devices	Complete	8	8	100%	6	45			
16. FMCG	Complete	20	20	100%	7	45			
17. Telecom	Complete	2	2	100%	6	37			
18. Consumer Durables	Complete	17	17	100%	8	35			
19. Hotels	Complete	2	2	100%	5	35			
20. Real Estate	Complete	6	6	100%	5	35			
21. Power Utilities	Complete	6	6	100%	8	63	2	1	2
22. Media & Entertainment	Complete	3	3	100%	5	38			
23. Sugar	Complete	1	1	100%	7	52			
24. Airlines	Complete	1	1	100%	6	40			
25. Insurance	Complete	8	6	75%	7	45	1		
26. Asset Management Companies	Complete	3	2	67%	6	40			
27. QSR	Complete	2	2	100%	8	36			
Total	Complete	335	325	97%			22	11	11

Source: UTI Research

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2. 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 & disclosures. Further, ESG factors relevant to a company would also influence our voting decisions as well. We have subscribed to two Proxy Advisory service providers for inputs related to stewardship and voting. Further we also engage with investee companies on resolutions, when we deem it necessary.

a) Engagements: Our regular engagements primarily focus on financial performance and management discussions. We have now commenced ESG focused discussion with companies to gauge their ESG performance, understand their risk mitigating strategies and to encourage them to adopt best-in-class ESG practices. **So far we have engaged with 44 companies.** We believe the number of ESG focused engagements will increase over the coming years, as the adoption of BRSR reporting (Business Responsibility & Sustainability Report) becomes mandatory from FY23.

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

1

**One-on-One
Engagement
with company
management**

2

**ESG
Questionnaires**

3

**Material
Risk
Surveys**

1. One-on-One Engagement with company management: Since December 2021, we have had One-on-One engagements with 22 companies from various sectors. These engagements primarily involved discussions around company's response, targets and performance with respect to carbon emissions, employee relations, gender diversity, ethical conduct & policies and governance. In every engagement, we have encouraged companies to increase the level of disclosures on ESG parameters and report their progress. We also initiate such dialogues when companies could be subject of a controversy. A controversy is a negative event, which may negatively impact the stock price of a company.

Case study

Our Engagement with a company, which was the subject of a Controversy

Context	<p>It was brought to our knowledge that based on a particular listing on an e-commerce company, which is part of our investment universe, had been red flagged by a governance/rating agency for being involved in the distribution of 'controversial weapons'.</p> <p>When ESG Ratings & Governance agencies categorize companies into controversial weapons and other such buckets, many asset management companies that follow an exclusionary approach of ESG integration, may divest from such companies. This negative reaction may adversely impact the stock price of the concerned company. Unable to fathom the fact that an e-commerce company would be involved in distribution of controversial weapons, which might have potential social implications, we decided to engage with the company and seek clarity on this concern. Our interaction also focused on the company's screening mechanisms and assess if the company is well equipped to avoid any such future incidents.</p>
1 st Call with company management	<p>We apprised the management of the company of the particular listing and communicated that based on this listing an ESG Governance/Rating agency has red flagged the company, for involvement in controversial weapons. The management in its response informed us that the particular listing has been removed and the company has a robust screening process in place to prevent such listings, especially paid listings. These listings are thoroughly monitored and reviewed before being posted on the website.</p> <p>Further, the company ensured us that they will engage with the agency to explain their screening process and clarify that the company is not involved in any sort of distribution of controversial weapons.</p>
Follow-up Call	<p>The company informed us that the Governance/Rating agency had cleared them of any red flags with regards to involvement in controversial weapons. The agency has provided its report to the company and has alerted its clients wherein they have clarified that the company is not involved in controversial weapons.</p> <p>The management understood the urgency of this issue and acted expeditiously to engage with the agency and resolve the issue at its earliest. While the company already has a robust screening policy to filter out listings for products that are considered illegal, they have made the process more stringent to ensure that even listings that can be construed as controversial, unethical or immoral can also be filtered out.</p>

For further details, please refer Annexure 3.a

2. ESG Questionnaires: We also engage with companies by sending out ESG questionnaires where the level of ESG disclosures in the public domain are limited.

We have sent questionnaires to 11 investee companies seeking data pertaining to ESG parameters and performance.

For further details, please refer Annexure 3.b

3. Material Risk Assessment Surveys: We have participated in material risk assessment of 11 investee companies. Through our inputs, we make these companies aware of material ESG risks to which they may be exposed and encourage them to increase their level of disclosures on such key parameters.

For further details, please refer Annexure 3.c

Through regular engagements and dialogues, we will strive to influence our investee companies to be judicious in handling their financial, natural & human capital as well as adopt Best-in-Class ESG practices and risk mitigating strategies.

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.

Voting Decision process: The voting process involves the research analyst of the respective company, fund managers, Head of Research and the ESG analyst who is responsible for the proxy voting decision-making process.

Third Party Proxy Voting Advisors: We have subscribed to the services of Institutional Investors Advisory Services (IIAS) and Stakeholders Empowerment Services (SES) as third-party proxy voting advisors. However, services of third-party professional agencies would be recommendatory in nature and not binding on our voting decision process.

Voting Summary: In the financial year 2021-22, we had **2705** resolutions to cast our vote on. We have voted **'FOR' 2486** resolutions and have voted **'AGAINST' 219** resolutions (8.1% 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 2021 - 22					
F.Y.	Quarter	Total no. of Resolutions	Break-up of Vote decision		
			For	Against	Abstained
2021 - 22	Quarter 1 - Apr to Jun	258	95%	5%	0%
2021 - 22	Quarter 2 - Jul to Sept	2119	92%	8%	0%
2021 - 22	Quarter 3 - Oct to Dec	119	92%	8%	0%
2021 - 22	Quarter 4 - Jan to Mar	209	84%	16%	0%
2021 - 22	Financial Year 2021-22	2705	92%	8%	0%

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

Examples of the Resolutions where we have voted 'Against'		
Company	Resolution	Rationale for Voting Against
Logistics Company	Re-appoint Mr. X as Managing Director, not liable to retire by rotation for five years from 18 August 2021 and fix his remuneration in excess of 5% of net profits	The company has sought approval for payment of remuneration in excess of 5% of profits, but without a cap on the absolute remuneration: with this, the company can reward the managing director disproportionately. The resolution terms are open ended: there is neither cap on the absolute amount of commission payable to him, nor has the company disclosed performance metrics used to determine his variable pay.
Retail Company	Re-appoint Mr. Y as Non-Executive Non-Independent Director, liable to retire by rotation	During FY21, Mr. Y attended 43% (3/7) board meetings held and 31% board meetings held in past three years (5/16). We expect directors to have better attendance of board meetings.
Pharmaceutical Company	Approve grant of upto 6.0 mn stock options under the company's Employees Stock Option Plan 2021 (ESOP 2021)	There is no clarity on the exercise price, or a 'formula' by which an exercise price will be calculated.
Auto-ancillary Company	Appoint Mr. Z as Executive Director for five years from 12 June 2021 and fix his remuneration at 2.5% of net profits	Remuneration is high and there is no absolute cap.

Signatory of:

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 are also working towards 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, 2022.

ANNEXURES

I. Environment parameters and data points: Cement v/s Bank

Environment Parameters			
Cement Sector		Banking Sector	
Key Parameters	Datapoints	Key Parameters	Datapoints
Carbon Emissions & Reduction Targets		Loan Portfolio Exposure	
	Scope 1 Emissions		% Corporate/Commercial Loans
	Scope 2 Emissions		% Loans to Sensitive Sector
	Scope 3 Emissions		Policy to reduce exposure to Sensitive Sectors
	Direct GHG Emissions		Responsible Lending Policy
	In-direct GHG Emissions		Sustainable/Green Loan Portfolio
	Targets to reduce Co2e Emissions		
Water Consumption & Reduction Targets			
	Consumption (m3)		
	Withdrawal (m3)		
	% Water Recycled		
	Water Intensity/Sales		
	Targets to Reduce Water Consumption		
	Rain Water Harvesting		
Toxic & Hazardous Waste Emissions & Reduction Targets			
	Sox (tons)		
	Nox (tons)		
	Sox Intensity (tons/Rsmn)		
	Nox Intensity (tons/Rsmn)		
	Particulate Matter (tons)		
	Ozone Depleting Substances (tons)		
	Total Waste		
	Hazardous Waste		
	Targets to reduce Waste		
Opportunity in Clean Technology			
	Thermal Substitution Rate		
	Renewable Electricity Share		
	Specific Thermal Energy (kcal/kg of clinker)		
	Specific Electrical Energy (kWh/ton of cement)		
	Clinker Factor		
	Blended Cement Ratio		

Source: UTI Research

II. ESG assessment of Automobile Manufacturing Company

THREE PILLARS

ENVIRONMENT

The company's long-term carbon emission reduction plans are aligned with its parent's Environmental Vision 2050 to achieve carbon neutrality in its business operations. Although the company has reduced its overall GHG emission by 5% in FY21, its GHG intensity/vehicle manufactured has witnessed an increasing trend over the past 4 years. This may indicate weak programs to reduce overall carbon emissions and may lead to headwinds in achieving its long-term carbon neutrality target.

The company does not disclose its Sox, Nox emissions, and reduction targets. However, we note that the company has been able to reduce its ODS emissions by 17% compared to previous year and is committed to eliminate the use of Ozone-Depleting Substances (ODS) at its facilities by the year 2025, which is well ahead of the regulatory timeline of 2030.

The Company is strongly committed to reducing carbon footprint and as per company's annual report; its fleet has the least CO2 emission per vehicle among all car manufacturers in India. The company's mix of powertrain technologies includes electrification and CNG. Further, it witnessed strong growth in CNG vehicle sales by 50% and Smart Hybrid vehicles grew by 18%, which highlights the company's efforts towards implementing clean technology into its product portfolio.

SOCIAL

The company provides a comprehensive list of benefits to its employees and has strong talent retention programs. It conducts annual engagement surveys, which help gauge employee morale and workforce satisfaction levels. Due to strong employee retention and engagement programs, the company has been able to maintain a lower employee turnover compared to other Auto OEM peers and is better able to retain talent.

The company has robust health & safety policy and is ISO 45001 certified which engages employees in creating a culture of risk awareness, accident prevention, and involves them in identification and reporting of potentially hazardous situations. There have been no fatalities from FY19 and LTIR has reduced in FY21 as compared to FY18, which indicates strong focus on employee health and safety.

A strong quality management systems based on ISO 9001:2015 at its manufacturing facilities drives The company's vision of delivering zero-defect vehicles. This has resulted in a drop in customer complaints/1000 vehicles from 2.25 in FY18 to 0.89 in FY21. Although the company conducts Global Consumer Audits on random sample vehicles ensuring effective inspection controls, there has been 70% increase in number of vehicles recall in FY21 owing to fuel pump and motor-generator issue. This may increase the company's warranty expense and suggests a vacuum in checks ensuring product quality & safety of its vehicles.

GOVERNANCE

The company's board lacks independent chairperson and majority independence, with the board comprising only 33% of independent directors. Further, the controlling shareholder controls 56% of company's share capital and has seven representatives on the company's board. Such weak board structure may hinder the board's ability to oversee management.

The presence of related party transactions and controlling shareholder may impede the rights of minority shareholders. However, the Audit and Remuneration committees have independent chair and have 80% and 50% independent directors, respectively, which meet market standards.

Source: Company Filings, UTI Research

III. a. List of **One-on-One engagements** with investee companies

INDIAMART INTERMESH LTD	BHARAT DYNAMICS LTD	LARSEN & TOUBRO LTD
ULTRATECH CEMENT LTD	MTAR TECHNOLOGIES LTD	HERO MOTOCORP LTD
SHREE CEMENT LTD	POWERGRID CORPORATION OF INDIA LTD	AU SMALL FINANCE BANK LTD
MINDTREE CONSULTING LTD	AXIS BANK LTD	PAGE INDUSTRIES LTD
LARSEN & TOUBRO INFOTECH LTD	ICICI BANK LTD	HINDALCO INDUSTRIES LTD
KOTAK MAHINDRA BANK LTD	ICICI PRUDENTIAL LIFE INSURANCE LIMITED	L&T TECHNOLOGY SERVICES LTD
ENDURANCE TECHNOLOGIES LTD	EICHER MOTORS LTD	UNITED SPIRITS LIMITED
CESC LTD		

b. List of engagements through **ESG Questionnaires** with investee companies

L&T TECHNOLOGY SERVICES LTD	ROSSARI BIOTECH LTD	TVS MOTOR COMPANY LTD
MARUTI SUZUKI LTD	BAJAJ AUTO LTD	PORT PIPAVAV LTD
HCL TECHNOLOGIES LTD	MRF TYRES LTD	MOTHERSON SUMI SYSTEMS LTD
POWERGRID CORPORATION OF INDIA LTD	THE CLEARING CORPORATION OF INDIA LTD	

c. List of engagements through **Material Risk assessment Surveys**

CESC LTD	INDIAMART INTERMESH LTD	JUBILANT FOODWORKS LTD
ICICI BANK LTD	RELAXO FOOTWEARS LTD	KOTAK MAHINDRA BANK LTD
TORRENT POWER LTD	ULTRATECH CEMENT LTD	AJANTA PHARMA LTD
J B CHEMICALS LTD	AMBUJA CEMENT LTD	

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Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.

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