



Stewardship Code

Document Created: January 2022

Last Updated: October 2023

This document is the sole property of HDFC Capital Advisors Limited and is to be used strictly for Internal Consumption only.

STEWARDSHIP CODE

A. Background & Purpose

Securities and Exchange Board of India (“SEBI”) vide its Circular No. CIR/CFD/CMD1/168/2019 has prescribed stewardship principles to be adopted and implemented by all Mutual Funds (MF) and all categories of Alternative Investment Funds (“AIF”), in relation to their investment in listed equity.

HDFC Capital Advisors Limited (“HCAL”) acts as an investment manager to HDFC Capital Affordable Real Estate Fund – 1 (“HCARE-1”), HDFC Capital Affordable Real Estate Fund – 2 (“HCARE-2”), HDFC Capital Affordable Real Estate Fund – 3 (“HCARE-3”) i.e the first scheme of HDFC Capital AIF-3 (“HCAL AIF-3”) and HDFC Capital AIF-3 – Scheme 2 (“HCAL AIF-3 – Scheme 2”) i.e. the second scheme of HCAL AIF-3.

HCARE-1, HCARE-2 and HCAL AIF-3 are a Category II AIF registered with SEBI.

HCARE-1, HCARE-2, HCARE-3 and HCAL AIF-3 – Scheme 2 as well as any other funds/schemes to which HCAL may act as an investment manager/ sponsor/ settlor now or in the future shall hereinafter be individually referred to as “Fund” and collectively as “Funds”.

While the primary objective of the Funds is to invest in unlisted securities, the Funds may invest/ have invested in listed securities in certain circumstances and in accordance with the investment objective of the respective Fund and the SEBI (AIF) Regulations, 2012.

This Stewardship Code (“Code”) is formulated to broadly lay down the principles and guidelines to monitor and engage with the investee companies whose securities are listed (“investee company(ies)”), on various matters including performance, strategy, corporate governance, material environmental, social and governance (ESG) opportunities and risk, capital structure and exercising voting rights on shareholder resolutions of Investee companies.

The Code is approved by the Board of Directors of HCAL and is applicable to Funds. The Code must be read in conjunction with SEBI Circular No. CIR/CFD/CMD1/168/2019 on Stewardship Code and any other related directives, etc. as may be issued by SEBI from time to time in this regard.

B. Guiding Principle(s) of the Code

The Code enable(s) to formulate a guiding principle to carry out stewardship activities, including the following principles:

- a. a comprehensive policy and guiding principles to fulfill the stewardship responsibilities;
- b. managing conflict of interest to ensure investor(s) interest is placed first;
- c. continuous monitoring of listed portfolio companies in which equity investments have been made;
- d. identification of circumstances and the manner of intervention for regular assessment of portfolio companies;
- e. participation in voting and disclosure of voting activities; and
- f. periodical reporting of stewardship activities.

C. Investment Stewardship Committee (“ISC”)

Internal Investment Committee (IIC) comprising of senior management of HCAL will be the ISC of HCAL. ISC will be responsible for effective implementation of the Code. ISC shall decide on the level of monitoring for different investee companies, areas of monitoring, mechanism for monitoring, voting decisions and mechanism of voting, disclosures and reporting etc. Towards fulfilment of stewardship activities, ISC shall abide by this Code and shall be guided by the following principles:

1. Policy and guiding principles to fulfill the stewardship responsibilities:

- i. take into consideration, the corporate governance practices of investee companies;
- ii. enhance investor value through productive engagement with investee companies; and
- iii. engage with investee companies on matters including environmental, social and governance parameters.

ISC may fulfil the purpose through:

- i. Voting on shareholders’ resolutions, with a view to enhance value creation for the investors and the investee companies;
- ii. Using the services of external agencies wherever deemed fit to discharge the duties;
- iii. advocating corporate governance practices, as a driver of value creation;
- iv. Working collectively with other institutional investors and supporting collaborative engagements organised by representative bodies and others;
- v. Conducting internal training(s) of ISC members and other personnel assisting in implementation of the Code;

2. Managing conflict of interest to ensure investor(s) interest is placed first:

While carrying out portfolio investments, the Funds may be faced with a conflict of interest. In such a situation, the Funds should follow the process as specified in the respective conflict-of-interest policy of the Fund. The brief summary of the conflict of interest policy is attached as an annexure to this policy for reference. For detailed conflict of interest policy please email at compliance@hdfccapital.com.

3. Continuous monitoring of listed portfolio companies in which equity investments have been made:

ISC shall ensure that portfolio companies are regularly monitored, through regular review, interactions with investee company's management, be part of industry calls of the investee company management, research material and other means of control measures.

ISC may determine the level of monitoring depending upon the quantum of investment and certain special situations which require greater monitoring in line with both regulatory and investment requirements.

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

HCAL should also keep in mind regulations on insider trading while seeking information from the investee companies for the purpose of monitoring. While dealing with the investee company, HCAL shall ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015.

4. Identification of circumstances and the manner of intervention for regular assessment of portfolio companies:

HCAL shall intervene if, in its opinion, any act/omission of the investee company is considered material on a case-to-case basis, including but not limited to insufficient disclosures, non-compliance with regulations, performance parameters, governance issues, corporate plans/ strategy, or any other related matters. HCAL may consider intervening in matters, if in the reasonable opinion of the ISC, the issue involved may adversely impact the overall corporate governance or investment.

The escalation matrix followed by HCAL for intervention shall be as follows:

- i. **Communication and engagement:** The ISC shall communicate to the investee company's management about any concerns of HCAL including steps to be taken to mitigate such concerns.
- ii. **Escalation:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by HCAL within a reasonable timeframe, HCAL shall take all reasonable steps to engage with the senior management / board of the investee company to resolve HCAL's concerns.
- iii. **Collaboration:** HCAL shall also consider collaboration with other institutional investors, professional associations, regulators, and any other entities where it deems necessary.

5. Participation in voting and disclosure of voting activities:

The key areas that ISC should consider for the purpose of voting will be related to corporate governance and matters related to future prospects of the investee companies including Director appointments and compensation, corporate restructuring and related party transactions. ISC may also consider additional factors, including recommendations made by any proxy advisory firms while voting. HCAL shall maintain a record of its voting on investee company resolutions along with rationale. The voting policy shall be disclosed on HCAL's website.

6. Periodical reporting of stewardship activities:

As per the direction from ISC, HCAL shall report periodically to its investors on their stewardship activities. HCAL shall ensure that updated stewardship code is available on its website i.e. <https://www.hdfccapital.com/>

Annexure

Summary of the conflicts of interest policy

The objective of the conflicts of interest policy (“**Policy**”) of HDFC Capital Advisors Limited (“**Investment Manager**”) is to: (a) outline the broad conflicts of interest which the alternative investment fund (or any of its schemes) managed by the Investment Manager may be subject to; (b) avoid business-related conflicts of interest; (c) document the process for the disclosure and review of actual, potential or perceived conflicts of interest; and (d) provide for the objective review of conflicts of interest and an escalation mechanism.

The Policy sets out in broad terms, the types of conflicts of interest that are relevant to the AIF (and the schemes thereunder) managed by the Investment Manager and the Investment Manager’s policy for managing such conflicts. The purpose of this policy is not to outline all of the AIF’s conflicts of interest (or those relevant to any scheme of the AIF), but rather to address how the Investment Manager will handle conflicts of interest as they arise.

The alternative investment fund (or any of its schemes) may be subject to conflicts of interest relating to the Investment Manager and its employees and directors or relating to the sponsors and their affiliates (collectively, the “**Relevant Parties**”). The Investment Manager intends to manage all conflicts of interest including conflicts related to the Relevant Parties fairly. To that end, the Investment Manager will endeavor to maintain and operate arrangements which are designed to prevent any conflict of interest from giving rise to a material risk to the interests of the AIF (or any of its schemes) and/ or any of Fund’s investors. The disclosures in relation to the potential conflicts of interest are provided in the confidential private placement memorandum of the AIF (or any if its schemes).

1. **Process for resolution of conflicts of interest as per the Fund documents**

In certain cases, the fund documents have defined the type of conflicts referred to as Conflicted Proposals and has mentioned the way to resolve such conflict of interest. In those cases, it is necessary to follow the procedure as mentioned in the fund documents. The Fund has an independent Investment Advisory Council (IAC) to consider the identified conflicted proposals.

2. **Process for resolution of conflicts of interest other than ones covered under Point 1**

To manage conflicts of interest apart from Conflicted Proposals, the same may be referred by the Investment Manager to a Conflict Resolution Committee (“**CRC**”) constituted by it. The CRC shall review conflicts referred by the Investment Manager and, upon consideration, advise the Investment Manager on the approach that may be adopted in respect of such conflicts. The composition and the process to be followed by CRC is detailed in the Policy and the private placement memorandum of the respective AIF.

The CRC shall comprise of the Chief Executive Officer (“**CEO**”) of the Investment Manager and suitable representatives from the senior management of Investment Manager, as nominated by the CEO.

Best efforts and mitigation

The Investment Manager will take such actions as may be necessary or appropriate within the context of the relevant private placement memorandum and other fund documents in relation to the relevant scheme of the AIF in an attempt to ameliorate such conflict and where appropriate refer the matter to the relevant committee as provided in the Policy.