

EXERCISE OF VOTING RIGHTS BY THE INVESTMENT MANAGER IN INVESTEE COMPANIES

I. Introduction

ICICI Prudential Asset Management Company Ltd. (“the AMC” or “the Investment Manager”) acts as the Investment Manager to the schemes of ICICI Prudential Mutual Fund (“the Fund”). Some of the schemes of the Fund have invested or will be investing in securities of companies (“investee companies”) carrying voting rights. These securities carry (or will carry) voting rights that can be exercised at meetings of shareholders or through postal ballots. The AMC, as the Investment Manager, is authorized to exercise, or to abstain from exercising, the rights on behalf of the unitholders of the investor schemes. This note sets out the general policy to be followed by the AMC in deciding on whether and how to exercise the voting rights vested in it as the Investment Manager. The policy takes into account the relevant regulatory guidelines issued by the Securities and Exchange Board of India (SEBI)¹.

II. Guiding principle

The basic principle that should guide the policy on dealing with voting rights in investee companies is that the exercise of voting rights or abstention from such exercise should be in the perceived best interests of the unitholders of the investor schemes. In the event of any conflicts of interest between those of the Investment Manager and the unitholders, the latter shall prevail.

III. Proposals coming up for voting

Matters that generally come up for voting by shareholders of investee companies (either at shareholder meetings or through postal ballots) include but are not limited to the following:

- change in the fundamental objectives of the company and in its character or name;
- change in the capital structure, including increase and decrease of capital, and issue of shares and convertible securities;

¹ a) SEBI circular no. SEBI/IMD/CIR No 18/198647/2010 dated March 15, 2010;
b) Mail dated May 9, 2011 from SEBI;
c) Mail dated June 23, 2011 from SEBI; and
d) SEBI circular no. CIR/IMD/DF/05/2014 dated March 14, 2014.

- appointment, remuneration, retirement and removal of directors, remuneration of the chief executive officer and other executive directors, and the issue of stock options to directors and executives;
- other corporate governance issues;
- appointment and remuneration of statutory auditors;
- any scheme of arrangement, merger and other corporate restructuring and anti-takeover proposals;
- social and corporate responsibility issues; and
- any other issue that may affect the interests of the shareholders.

IV. General guidelines for exercise of voting rights

The Investment Manager's decision either to vote, or to abstain from voting, on proposals before the shareholders of investee companies shall be made taking into account the possible implications of the voting or abstention on the interests of the unitholders represented by the Investment Manager. The Investment Manager should ensure that the voting or abstention would help protect, preserve, or enhance the unitholders' value in the investee company, or would not prejudice their interests.

Further, the Investment Manager may decide to abstain from voting:

- i. where the proposal is not considered detrimental to the interests of the unitholders concerned; or
- ii. where the cost involved in exercising the voting rights far outweigh the advantages to be derived therefrom.
- iii. where the investments are below a specified minimum value in an investee company, as determined by the Investment Manager.
- iv. where the investments in the investee company were made by index schemes or exchange traded funds or arbitrage schemes of the Fund.

a. Changes to the Memorandum and Articles of Association

The reasons for the proposed change (especially of the objects clause) and its likely impact on the investee company's character, business operations and financial condition shall be taken into consideration while determining the voting decision.

b. Changes to the capital structure

Proposals to increase the capital, whether through a rights issue or other means, should be examined to see why it is needed, and if it would have a significant impact on the existing shareholders' rights and their existing or potential value. It should also be examined how the additional capital infusion would be leveraged.

c. Board of Directors

The board of directors of a company shoulders the primary responsibility for managing it in such a manner as would protect or enhance shareholder value while also ensuring that the company complies with statutory and regulatory requirements and adopts good corporate governance practices. The board should, therefore, comprise individuals who can be expected to help the board perform its role satisfactorily.

While considering a proposal for appointment or reappointment of a director of an investee company, the Investment Manager shall take into account such factors as the person's qualifications and relevant experience, any instances of his misconduct as would reflect on his ability to function effectively as a director, any history of legal proceedings against him, and (in the case of an independent director) the degree of independence that he could be expected to bring to his tasks. The Investment Manager shall normally not vote against such proposals unless there are strong factors in the knowledge of the Investment Manager that militate against the appointment or reappointment.

d. Compensation

While considering proposals for remuneration (including any stock options) of directors and the chief executive and senior executives, the Investment Manager will consider such factors as the company's business volume, income, and profits, statutory or regulatory limits, and comparable industry practices.

It is clearly in the interests of shareholders that an investee company should have the ability to attract and retain personnel of high quality. Employee remuneration levels should reflect market-based judgment taking into account the nature, size and complexity of the business of individual companies and industry practices.

The Investment Manager would normally support proposals for remuneration of the chief or senior executives linked to the company's long-term performance, as reflected in enhanced shareholder value. Employee stock-option and stock-incentive plans that result in excessive dilution of shareholder value, or are

considered to be excessively generous, shall not be supported. Further, any record of unsatisfactory performance or misconduct by personnel who will significantly benefit from approval of such proposals shall be kept in view.

e. Appointment of statutory auditors

While considering proposals for the appointment/reappointment of statutory auditors, the Investment Manager shall give due consideration to factors such as the auditor' performance vis-à-vis the company, its overall experience and track record, and any known instances of professional misconduct.

f. Corporate social responsibility

The Investment Manager shall normally support, or will not vote against, proposals that would enable the company to contribute to social development, community welfare, and environmental protection, or those that are reasonably expected to bring in significant socio-economic benefits. For this purpose, the Investment Manager shall consider reasonableness of the amount proposed to be spent.

g. Mergers and corporate restructuring

The Investment Manager shall analyze a proposal for merger, or other corporate restructuring, to assess its short- and long-term financial and strategic implications for the company and its shareholders, and support those that are considered to be in the interests of the unitholders and vote against those that are considered to be prejudicial to their interests.

V. Conflicts of interest

Situations involving current or potential conflicts of interest may only arise when a proposal is from an investee company within the ICICI/Prudential group. In all such situations, decisions shall be taken in the interest of the unitholders of the investor scheme.

VI. Procedure for policy implementation

The general procedure to be adopted by the Investment Manager for considering, and deciding on, proposals from investee companies is noted below:

- a. The Investment Manager shall arrange for the Custodian or such other agency appointed for the purpose, to notify the Investment Manager, in advance, of forthcoming shareholder meetings and postal ballots to be held by investee companies and the proposals coming up for voting at the meetings or for ballot.

- b. On being so notified, the proposals will be reviewed by the Investment Manager in terms of the guidelines contained in this policy.
- c. A decision to vote for or against, or to abstain from voting, shall be taken on each proposal. Every proposal shall be examined by the Fund Manager (FM) concerned, who may seek the views, guidance, or advice of the Managing Director, other Fund Managers, Research Analysts or other officials of the AMC before recommending a final decision. The final decision shall be taken by the Head of Equity/Debt Investments, as applicable, by whatever name called. The Investment Manager may also seek the analysis and recommendations of a research firm or other competent agency or individual to aid such decisions.
- d. Where, however, a proposal involves conflicts of interest or where the Fund Manager intends to vote against a proposal, the proposal shall be referred to, and a decision thereon taken by a committee chaired by the Managing Director and with other members appointed by him, to ensure that the Investment Manager's decision on the proposal would be in the best interests of the unitholders of the investor scheme concerned. Further, there shall be a written disclosure of the conflicts of interest in the process leading to the final decision.
- e. Further, the decisions taken on each proposal alongwith the facts of the proposal and justification shall be recorded and documented.
- f. Where so decided, the voting right shall be exercised, in accordance with the decision taken on the proposal, by a representative of the Investment Manager so authorized. The Investment Manager could avail of the services of an agency for representing the Fund/ the Schemes, in the meetings of the Investee companies.
- g. The AMC shall obtain Auditor's certification on the voting reports disclosed. Such Auditor's certification shall be submitted to the Board of Directors of the Trustee Company and also disclosed in the abridged annual report for the year distributed to the unitholders and on the AMC's website.
- h. The Board of Directors of the AMC and the Trustee Company shall review and ensure that the AMC has voted on important decisions that may affect the interests of investors and the rationale recorded for vote decision is prudent and adequate. The confirmation on the above, along with any adverse comments made by the Auditors, shall be reported to SEBI in half-yearly Trustee reports.
- i. A periodical report containing a summary of the voting decisions exercised and abstained along with the rationale, as the case may be, will be submitted to the Board of Directors of the Trustee Company and the AMC.

With respect to investments in companies who hold investments in Schemes of the Fund, the Investment Manager will follow the same principles as detailed in this policy document and shall act in the interest of unit holders.

VII. Disclosures

This policy shall be put on the Investment Manager's website www.icicipruamc.com.

The following periodical disclosures shall be made available on the aforesaid website and/or in the abridged annual report for the year distributed to the unitholders:

- a) Voting exercised and abstained along with the rationale on a quarterly basis within 10 (ten) working days from the end of the quarter in the format prescribed by SEBI, as amended from time to time. Additionally, a summary of the voting exercised across all the investee companies and its break-up in terms of total number of votes cast in favour, against or abstained from shall also be updated.
- b) Voting exercised and abstained along with the rationale on an annual basis in the format prescribed by SEBI, as amended from time to time.
- c) Certification from the Auditors on the AMC's voting reports.

VIII. Review/Amendments to the policy

This policy shall be reviewed once in two years, or as and when needed. This Policy may only be amended with the prior approval of the Board of Directors of the Trustee Company.