IN

MOVING THE NEEDLE

Stewardship in India

22 JUNE 2023

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RisCura and our emerging market experience

$165 billion

Client assets under
advice & reporting

$3.7 billion

Client assets
under management

$5.1 billion

Clients assets
under administration

Cape Town | Gaborone | Grand-Baie | Hong Kong | Johannesburg | London | Lusaka | Mbabane | Nairobi | Shanghai | Washington DC | Windhoek

Years of
consistent
leadership
team

171

Staff members

Discretionary
services proven
since 2011

Experts in emerging
markets and frontier
markets

Research

750+

asset managers

300+

companies
valued annually

27 000

investment reports
produced annually

**AUM/AUA and statistics as of March 2023*

Introduction

The RisCura speakers

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Investment Strategist, Director
CFA, CA(SA)

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Head of Investment Research
BSc (Hons) Actuarial Science,
Fellow of the Institute of Actuaries

Contents

Moving The Needle — Stewardship in India

Introduction

Why India?

Some important facts and figures

- **Population**: 1.4bn (#1 in world)
- Rural population: 900m
- 60m formally employed

- **GDP**: $3.2trn (# 5 in world)
- GDP: $2.3k per capita (#146 in world)

- **Stock market cap**: $3.3trn (#5 in world)
- Bombay Stock exchange: Opened 1875 [JSE: 1887]

- **Corruption** perception index: #85 in world
- Other BRICS: Russia (137); Brazil (94); SA (72); China (65)

- **Carbon emission**: #3 worst in the world (#133 per capita)
- Net-zero commitment: 2070

Note: Out of 180 countries

Introduction

Stewardship

What is stewardship?

"The job of supervising or taking care of something…"

"The use of influence by institutional investors to maximise overall **long-term** value…"

Why is it important?

One of the most effective tools with which to:

1. Minimise risk
2. Preserve long-term shareholder value, and
3. Enhance long-term returns

Relevance for asset managers

- Key role as stewards of institutional savings
- Need to engage with investee companies
- Vote their proxies

The RisCura *Moving the Needle* series

Focus

Detailed research into the state of Stewardship in key emerging countries

Covers both: Engagement and Proxy voting

Assess current state-of-affairs

- What is the typical manager's attitude & approach towards stewardship?
- Are they just ‘paying lip service’ or actually ‘moving the needle’?

And then, suggest ways to ‘move the needle’ further…

RisCura Stewardship research journey

2011
Initial RisCura research:
Spoilt votes (SA)

2021
Moving The Needle — Stewardship in SA
(first in this series)

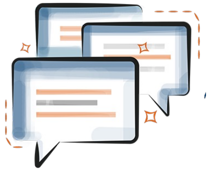
2022
Moving The Needle — Stewardship in China

2023
Moving The Needle — Stewardship in India

2024
(*Proposed*)
Moving The Needle — The comparison report
SA vs China vs India

High-level project summary

A global team effort



Combination of: Survey, interviews and desk-top research

35

Asset managers surveyed
Wide range of styles; 29 questions

12

One-on-one discussions

Detailed report (available on our website)

2x

Live webinars

Builds on, and augments, RisCura's experience of researching emerging markets & managers

Annexure 5.1: Timeline of key corporate governance developments

1992
The Securities and Exchange Board of India (SEBI) is established as the regulator of securities markets in India.

2003
SEBI introduces the first set of corporate governance guidelines for listed companies, which includes recommendations on board composition, audit committees, and financial disclosures.

2011
The National Voluntary Guidelines (NGVs) on Social, Environmental and Economic Responsibilities of Business are launched in India, outlining a framework for responsible business conduct.

2012
SEBI mandates that the top 100 listed companies by market capitalisation file a Business Responsibility Report (BRR) based on NVGs, along with their annual reports.

2013
A new Companies Act introduces several new provisions related to corporate governance, such as mandatory appointment of independent directors, disclosure of executive compensation, formation of a Corporate Social Responsibility Committee, and the requirement for certain companies to spend a portion of net profits on CSR activities.

2014
SEBI releases a revised set of corporate governance guidelines, which include provisions on whistle-blower mechanisms, related-party transactions, and board evaluation.

2015
SEBI mandates the top 500 listed companies in India to disclose their annual BRRs containing information on their ESG policies and performance. The Sustainable Development Goals (SDGs) are adopted by the United Nations, and India commits to achieving them by 2030.

2017
SEBI introduces the concept of a stewardship code for mutual funds, which requires them to actively engage with the companies they invest in on ESG issues.

2019
SEBI promotes the Stewardship Code, 2019[1] (SEBI Code) for institutional investors in India and makes it mandatory for Mutual Funds and Insurance companies to follow. SEBI extends the BRR requirement to the top 1000 listed companies by market capitalisation from FY 2019–20.

2021
SEBI renames BRR to Business Responsibility Sustainability Reporting (BRSR) and prescribes a new report that also includes environmental metrics with the guidance note to enable companies to interpret the scope of disclosures required to be made in the report.

India PM Narendra Modi pledges net-zero by 2070.

2023
SEBI implements a regulatory framework on ESG disclosures by listed entities and ESG investing by mutual funds to facilitate a balance between transparency, simplification, and ease of doing business in an evolving domain. Also, the regulator decides to create norms for ESG Rating Providers (ERPs) amid the growing importance of their role in making investment decisions.

Observations

Some high-level observations

1. Easy to **engage** with managers
2. India has some fairly **unique** features
3. Joining of **PRI** was often a ‘defining’ event
4. **Data** increasingly important; becoming more available; sector specific
5. The **tone** is set from the top: Government (via regulators) & Corporates
6. **Trends** almost all in the right direction: Regulators; Corporates; Managers
7. **State-owned** enterprises vs **private / public** companies

What we hope to achieve in today's session

Present the findings from our research

Enhance understanding of the local industry

Improve industry best practice & behaviour for the better

The ultimate goal: Make key emerging markets…

- More globally competitive (ESG)
- Safer / better
- More investible

The Findings

Executive summary

01

Promotors & 'bad actors'

02

Engagement with an Indian flavour

03

The 'G-e-s' perspective

04

Few foreigners but outsized influence

05

Mixed reviews for authorities

06

Proxy voting works well

IN

1.
Promoters & ‘bad actors’

- Most Indian companies are controlled by a ‘promoter’
- Thorough research of the promoter is essential to avoid ‘bad actors’
- Fund managers prefer to completely avoid ‘bad actors’
- Dealing with large companies controlled by ‘promoters’

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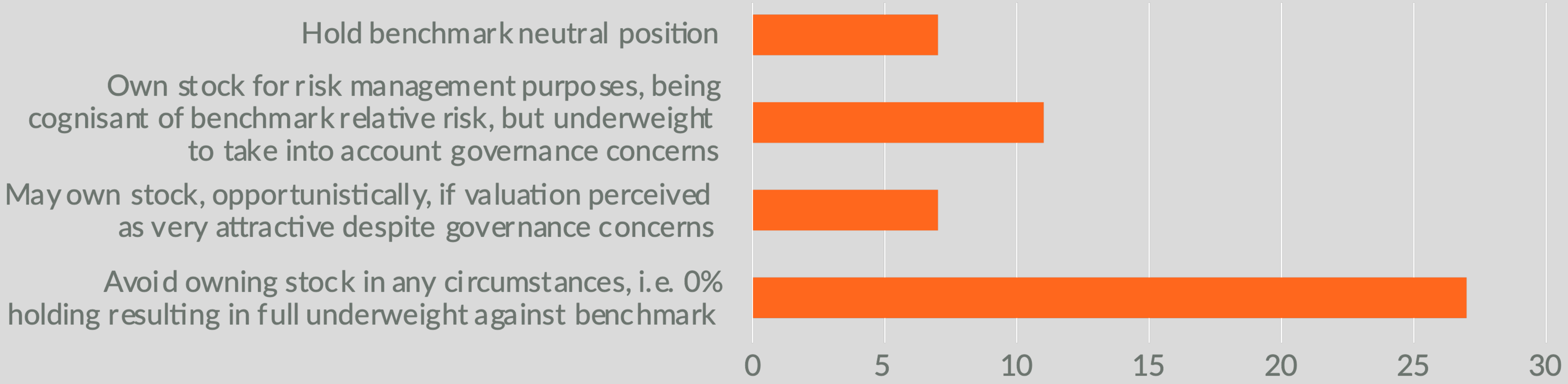
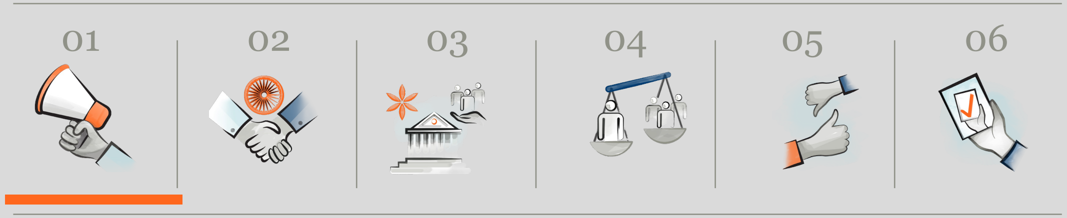
Promoter & ‘Bad Actors’

Figure 3.1: Strategy to deal with a large bad actor





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2.

Engagement with an Indian flavour

- Indian managers prefer to avoid confrontation
- A preference for face-to-face engagement
- Direct engagement is preferred, although collaboration between managers is increasing

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Communication and strategies for engagement

FIGURE 3.2: One-on-one: the most effective engagement channels for successful communication

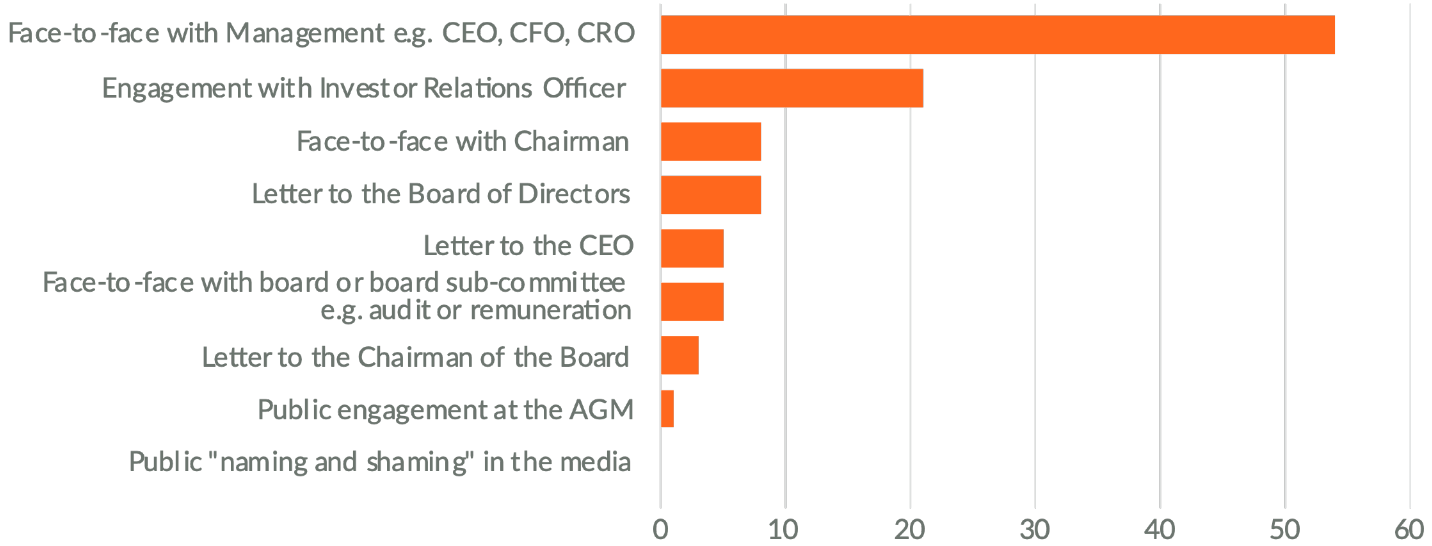
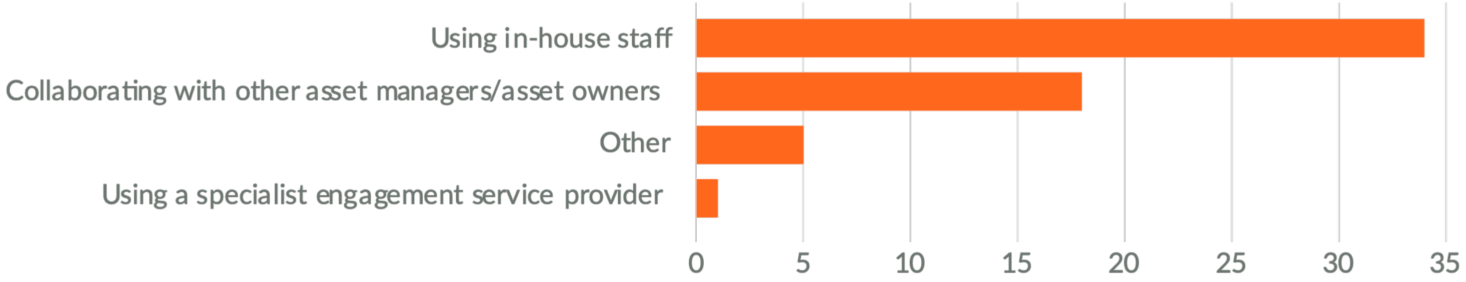
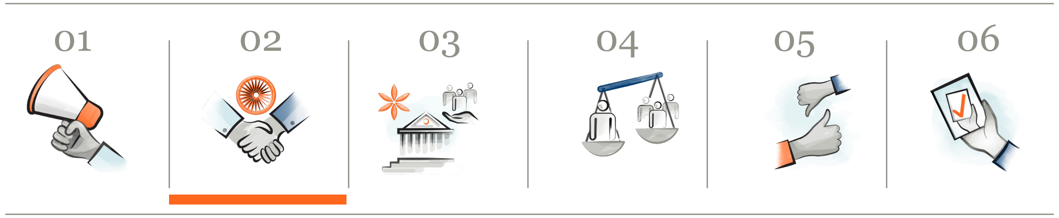


FIGURE 3.3: Handling matters in-house: the different strategies for meaningful engagement





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3.
The ‘G-e-s’ perspective

- Governance is the cornerstone of ESG in India
- Emphasis on climate change
- Regulation is improving environmental disclosure
- Increased renewable energy has social implications
- India has multiple, complex social challenges
- Has CSR become a replacement for real engagement on social issues?
- Other ESG challenges in India

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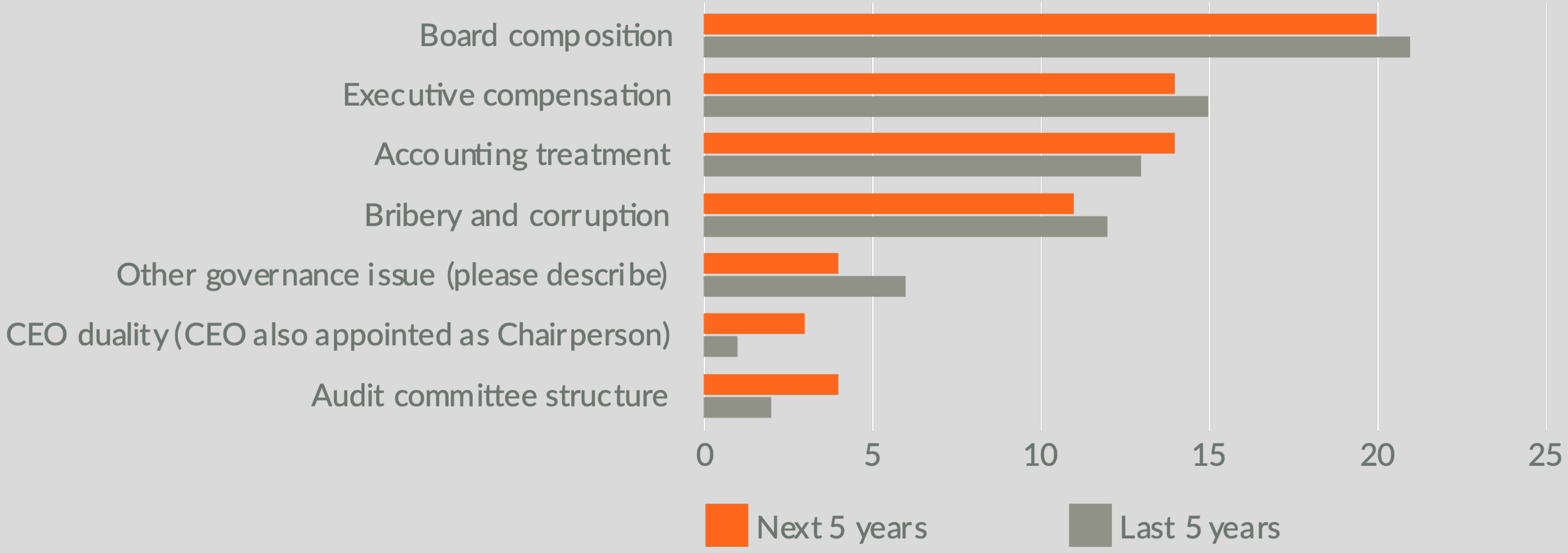
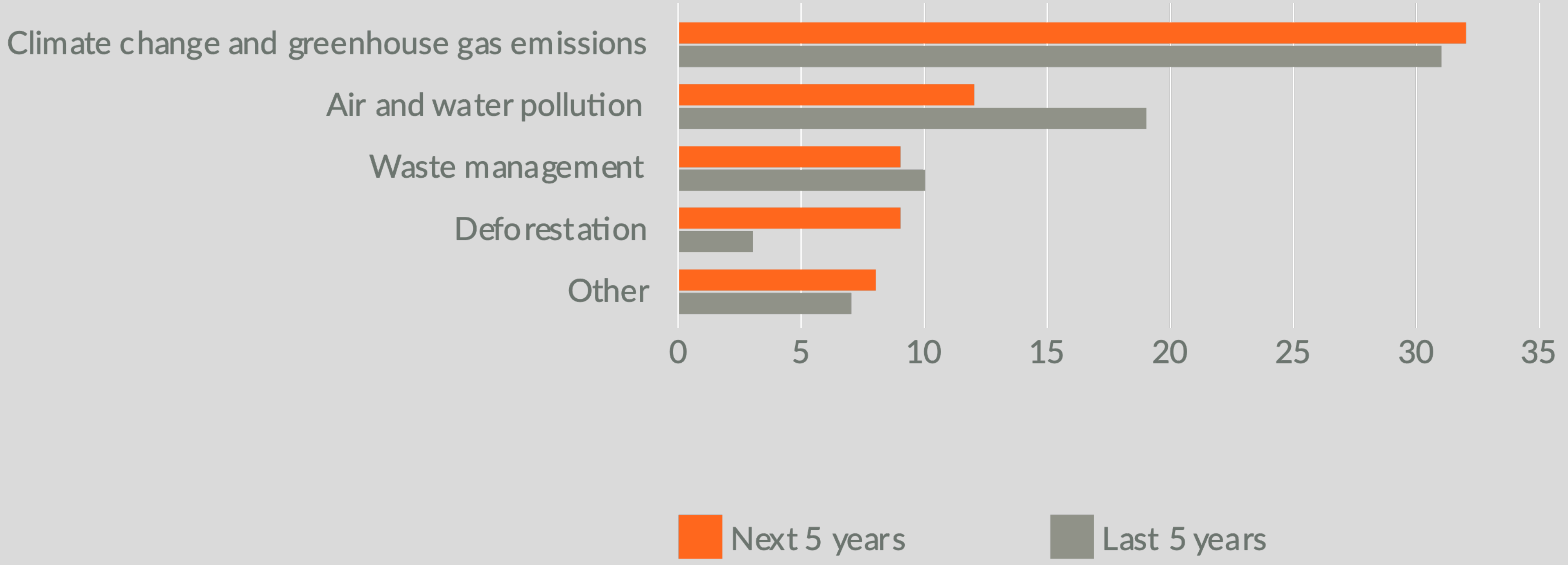
A comparison: governance issues over the last and in the next 5 years

FIGURE 3.4: Perceived importance of governance issues: past and future perspectives



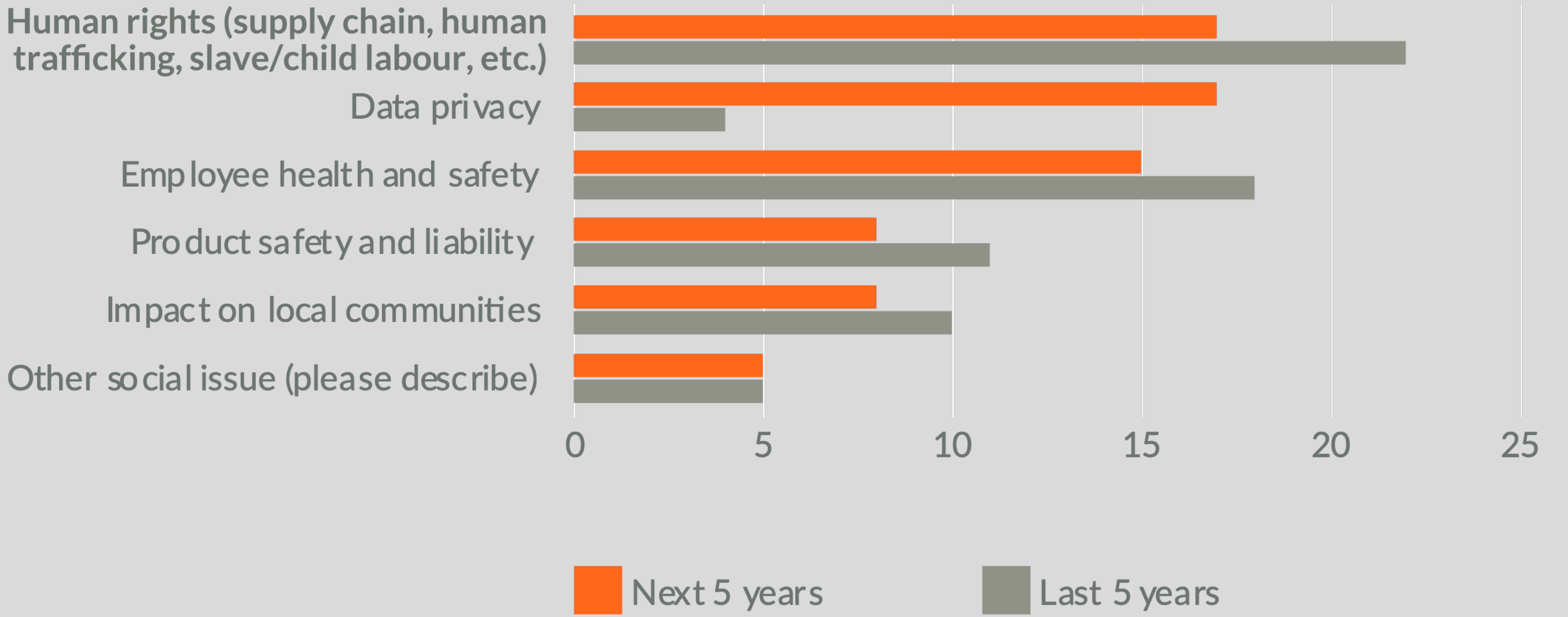
A comparison: environmental issues over the last and in the next 5 years

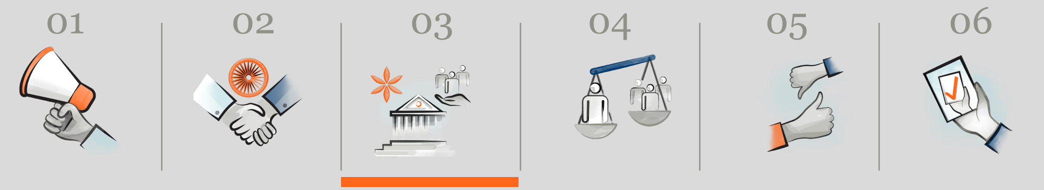
FIGURE 3.5: Perceived importance of environmental issues: past and future perspectives



A comparison: social issues over the last and in the next 5 years

FIGURE 3.6: Perceived importance of social issues: past and future perspectives





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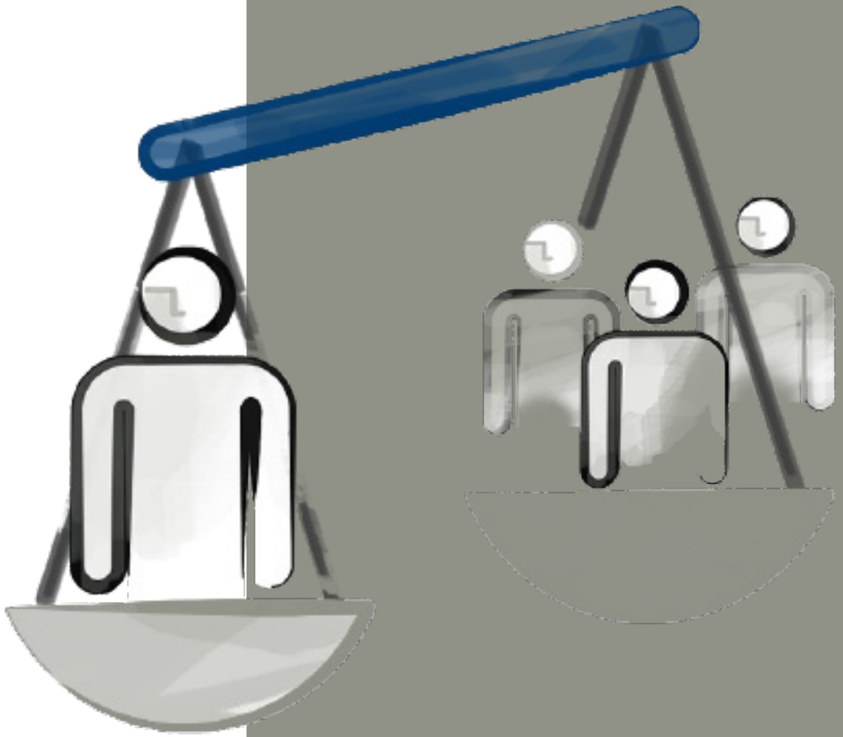
4.
Few foreigners but outsized influence

- Limited presence of foreign asset managers
- ...but they have an outsized influence in lifting standards around responsible investing



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5.
Mixed reviews for authorities

- Securities regulator SEBI scores highly
- Disclosure improvements through regulatory compulsion
- Legal and tax systems nearer bottom of the class

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6.
Proxy voting works well

- Fully automated and very effective
- Mandatory voting for Indian mutual funds

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India sets the example on proxy voting

FIGURE 3.7: A clear winner: on whether companies exercise proxy voting

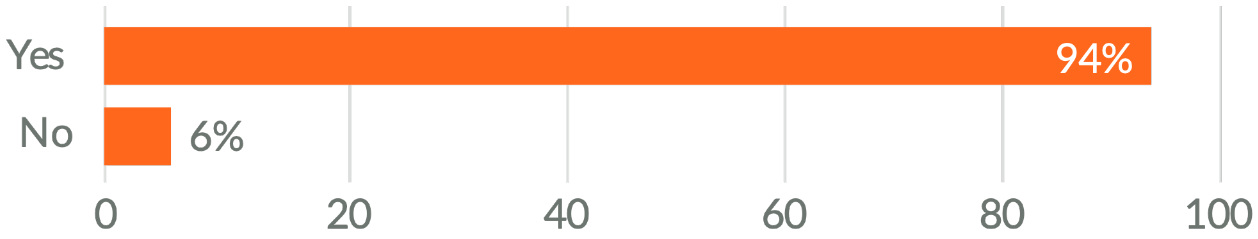
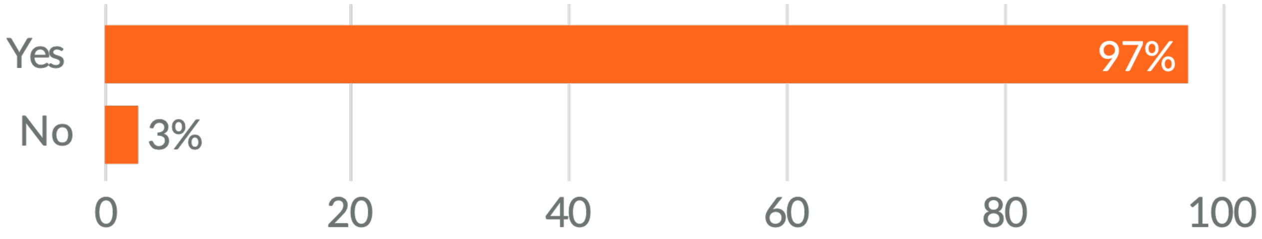
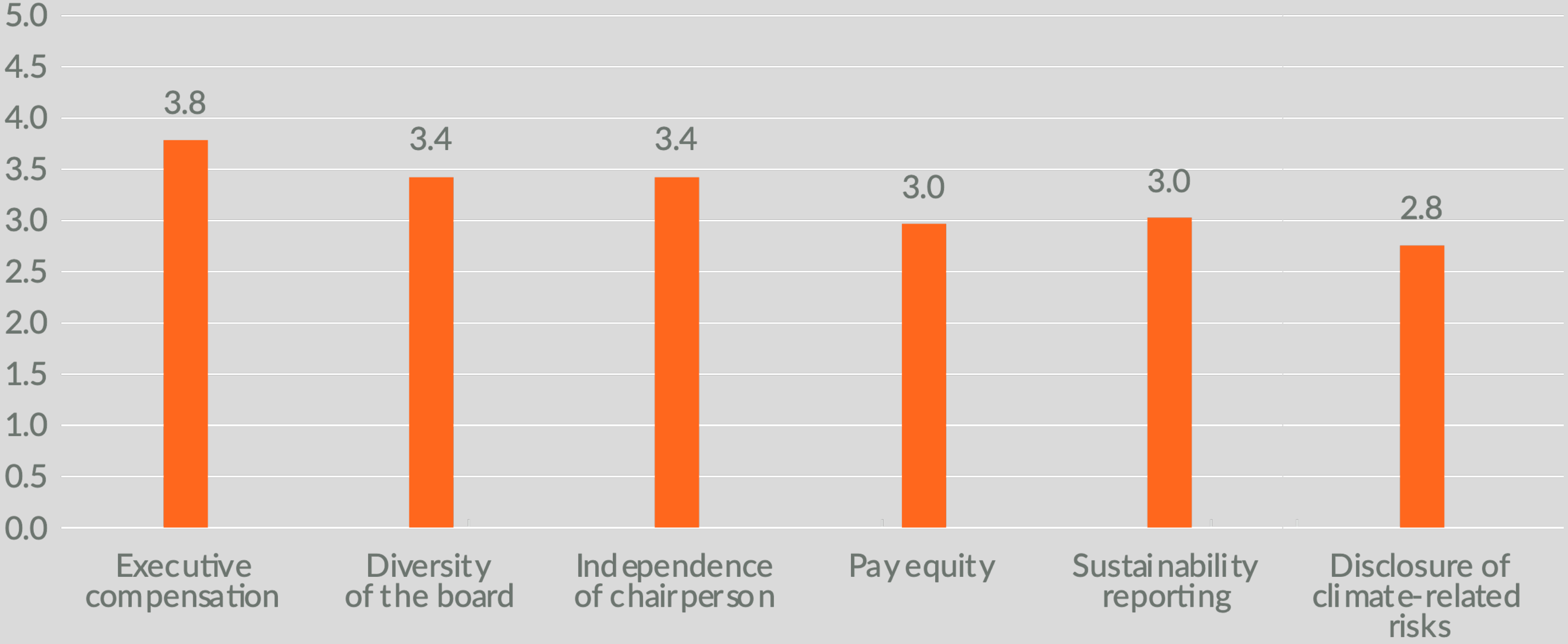


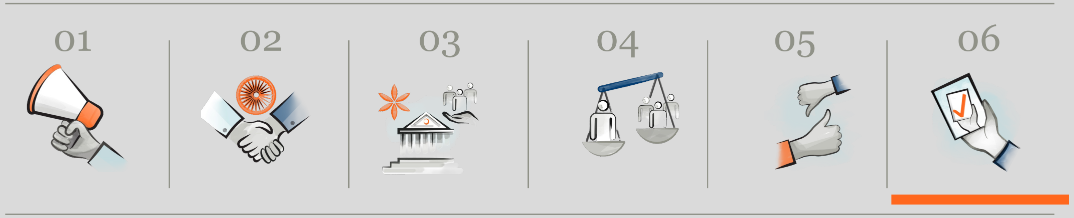
FIGURE 3.8: Policy prowess: on whether companies have a policy that governs proxy voting



Proxy voting on a range of issues

FIGURE 3.9: Proxy voting power: assessing the effectiveness of proxy voting on various issues (where 1=very ineffective and 5=very effective)





Suggestions for ‘moving the needle’ forward

Key suggestions

01

It takes courage to refrain from investing in companies controlled by ‘bad actors’, but managers are encouraged to show further nerve to invest and engage collaboratively for change.

02

Asset managers should call out and censure ‘bad actors,’ ensuring appropriate consequences for such.

03

Asset managers can contribute positively, and more to broader social issues, or those that impact a wider set of stakeholders.

04

Asset managers should upskill their teams to engage and contribute more on environmental issues.

05

Collaboration among asset managers could be improved upon, especially when approaching companies on more sensitive issues.

06

India's proxy voting system is praised as best in class. Other markets could benefit by adopting aspects or the entire Indian template for proxy voting.