

# **STEWARDSHIP POLICY**

<b>Effective date</b>	July 2023
<b>Recommendation by</b>	Audit and Risk Committee
<b>Approver</b>	Board of Directors
<b>Owner</b>	Fund Management Department
<b>Functional Applicability</b>	Fund Management Team
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## NBP FUND MANAGEMENT LIMITED

### Stewardship Policy

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#### 1. Background

Securities and Exchange Commission of Pakistan (SECP) vide SRO no. 592(I)/2023 dated May 17, 2023 notified the amendments in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 wherein among other requirements, Asset Management Companies (AMCs) are required to formulate a comprehensive **Stewardship Policy for Institutional Investor** in relation to their investment in listed equities duly approved by its Boards of Directors covering the following principles:

- a) policy on stewardship responsibilities;
- b) policy on voting;
- c) policy on monitoring the investee companies;
- d) policy for engagement with the investee companies;
- e) policy on identifying and managing conflicts of interest; and
- f) policy on how sustainability consideration, including Environmental, Social and Governance (ESG) are incorporated into investment analysis and decision making.

Accordingly, subject policy and subsequent updation, if any, will be presented before the Audit and Risk Committee for their review & recommendation to the Board for its formal approval.

#### 2. Introduction

NBP Fund Management Company Limited “NBP Funds” is managing Mutual Funds, Pension Funds, and Investment Advisory Portfolios. At NBP Funds, we understand the role and importance of stewardship in our investment decision making process to not only meet our fiduciary duty towards our clients/unit-holders, but also use this process as a means to try and enhance the return of investors. The key principals of stewardship that involve active monitoring, engagements with company & its management, and voting activities can have favorable outcomes on the strategic decision making of the company, corporate governance, and risk management practices of the company. In all our activities, we always fulfill our fiduciary duties and always strive to serve our unitholders’ interests to the best of our capabilities.

As a responsible Asset Management Company, we will continue to enhance the capabilities necessary for carrying out our stewardship responsibilities, wherever applicable, and will contribute favorably within the space we exist.

This Stewardship Policy applies to investment for all Mutual Funds, Pension funds, and Investment Advisory Portfolios invested in listed equities at Pakistan Stock Exchange.

#### 3. Principle 1 – Stewardship Policy:

NBP Funds investment team exercises close oversight of companies held, meeting them to monitor performance as well as undertaking voting and engagement.

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#### *Primary Stewardship Responsibilities:*

- a) Monitor and actively engage with investee companies on various matters including performance, corporate governance, material environmental, social and governance (ESG) matters, opportunities & risks surrounding operations/businesses, capital structure, etc.
- b) Enhance unitholders' value through constructive engagement with investee companies.
- c) Vote in the Board and Shareholders' meetings and engage with investee companies with a view to add value for unitholders and investee companies.
- d) Accountable to unitholders within the parameters of professional confidentiality and regulatory regime.

#### *Discharge of Stewardship Responsibilities*

- a) By engaging in dialogue with investee companies to obtain deeper insight and understand corporate strategies, through detailed discussions with management, interaction with boards, voting in board and shareholders' meetings, etc.
- b) By regular monitoring & active engagement with investee companies on various matters including performance (operational, financial, etc.), strategy, corporate governance (including board structure, remuneration, etc.), material environmental, social and governance (ESG) matters, capital structure, etc., in order to add value to for unit holders
- c) By expressing our views and opinions as a responsible investor to the investee companies, which we believe create corporate value, resulting in benefits for both our unitholders and investee companies.
- d) By exercising voting on shareholders' resolutions (as per our board approved voting policy), with a view to enhance value creation for shareholders / investors and investee companies.
- e) By advocating for responsible corporate governance practices, as a driver of value creation.
- f) By regularly monitoring and intervening (wherever necessary) on material environmental, social and governance (ESG) opportunities or risks in investee companies.
- g) By ensuring adequate training to personnel engaged in implementation of these principles.

#### **4. Principle 2 – Voting Policy and its Disclosure:**

To protect and maximize the return of our unitholders and to improve governance of the investee companies, NBP Funds take its own voting decisions in the investee companies after in-depth analysis. We consider the exercise of proxy voting rights as one form of “dialogue with investee companies” to fulfil our stewardship responsibilities.

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We make decisions regarding exercising proxy voting rights in accordance with our Board approved Proxy Voting Policy (available on our website).

Our Board approved Proxy Voting Policy provides guidelines on the following, which will be adhered / followed so that voting in the Investee Company is taking care of:

- Composition of Board.
- General Rules governing Proxy Voting
- Corporate Governance
- Appointment of Auditors
- Changes in Legal, Capital Structure, Proposal affecting shareholders rights
- Corporate Restructuring.
- Mergers and acquisition
- Voting Procedures and other matters
- Record Management

#### **5. Principle 3 – Monitoring Investee Companies:**

Equity investment research team led by Head of Research will be responsible for monitoring the investee companies where NBP Funds invests in. The monitoring will be based on publicly available information, management meetings, sell side research and industry information.

While endeavor would be made to ensure at least one meeting with an investee company in a year, there can be investee companies where the management is not accessible or not accessible at appropriate levels or cases where the research team believes that there is no incremental information which is being provided by the management. In such cases, it is possible that the monitoring is through other sources.

##### *Manner of Monitoring:*

- Monitoring of the investee company's business strategy, performance, risk, capital structure, leadership effectiveness and succession planning, remuneration, corporate governance performance, cultural, social and environmental matters, on a best effort basis.
- Use publicly available information, sell side research and industry information and wherever possible engage with the investee companies through investor/analyst calls or analyst meeting at least once in a year, to monitor the investee companies.
- Research team, to the extent feasible, shall meet the management teams / key managerial personnel of the investee company on a regular basis and actively participate in investor meetings and general meetings held by the investee company (to which it is invited), through webcast, conference call or other mechanism when possible.

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- Where investee company's management is not accessible or not accessible at appropriate levels or cases where the research team believes that there is no incremental information which is being provided by the management of investee company, monitoring will be done through other sources (e.g., third party research, proxy advisory services, etc.).
- Research team shall strictly adhere to regulations and internal policies on prohibition of insider trading while seeking information from investee companies (and any other source) for the purpose of monitoring.

#### **6. Principle 4 – Policy on Engagement with the Investee Companies:**

We believe that engagement with investee companies is important to build relationship with investee companies and promote sound corporate governance & business practices in order to enhance return of our investors. Therefore, NBP Funds will consider actively engaging with the investee company in the acts / omissions of the company concerned if, in its opinion any act/omission is considered material, on a case to case basis, including but not limited to poor financial performance, corporate governance related practices, remuneration, strategy, leadership issues, litigation etc. NBP Funds will undertake active engagement / escalation policy as under:

- a) NBP Funds shall take all reasonable steps to engage with the management of investee companies to resolve any concerns, including steps to be taken to mitigate such concerns;
- b) In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised within a reasonable timeframe, NBP Funds shall take all reasonable steps once again to engage with the management to resolve the concerns;
- c) In case there is no progress despite the first two steps, NBP Funds may engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. Further, NBP Funds may take appropriate steps to resolve the concerns, including exiting its investments.
- d) NBP Funds shall consider to be part of collective engagement with other institutional shareholders on a general basis and in particular, when it believes a collective engagement may lead to a higher quality and/or a better response from the investee company. NBP Funds may approach, or may be approached by, other institutional shareholders to provide a joint representation to the investee companies to address specific concerns. NBP Funds shall determine individually its position on any issue requiring collaborative engagement and shall not act or be construed as acting as a 'person acting in concert' with other shareholders.

#### **7. Principle 5 – Managing Conflict of Interest:**

NBP Funds' primary responsibility as an investment management company is to try to add value over the long term for its unit-holders. Potential conflicts of interest NBP Funds may face are addressed by the over-riding principal that investors' interests are put first.

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A conflict of interest exists where the interests or benefits of NBP Funds conflict with the interests or benefits of the investors of the Fund. The Investment team of NBP Funds shall take all reasonable steps to avoid actual or potential conflict of interest situations. In the event of any doubt as to whether a particular transaction would create (or have the potential to create) a conflict of interest, the same shall be escalated to Chief Investment Officer (“CIO”) and Chief Executive Officer.

While dealing with investee companies, NBP Funds may be faced with a conflict of interest

- a) investee company may be part of the Group; or
- b) the investee company is a client of the NBP Funds; or
- c) the investee company is a distributor for the NBP Funds;

Investment team of NBP Funds will manage conflict of interest by:

- i. avoiding conflict of interest wherever possible;
- ii. applying blanket ban on investments where considered necessary;
- iii. having appropriate escalation mechanism;
- iv. Ensuring that client relation / sales function in NBP Funds is separate from investment team, who is responsible for engagement and voting in investee companies;
- v. Ensuring that members of investment team will recuse from decision making in case of persons having any actual or potential conflict of interest in transaction;
- vi. Maintaining records and documenting decisions taken to address conflict of interest situations; or
- vii. Ensuring that in all situations of conflict of interest, the voting decisions will be based on the best interest of investors / unit-holders.

## 8. Principle 6 – Incorporating Sustainability Considerations:

NBP Funds believes in the role that environmental, social & governance (ESG) factors can play in the sustainability and maximization of return for businesses and as well as investors. We integrate ESG into our investment process by considering these factors alongside others. Reasonable weight and consideration is given to limitations faced by the investee companies with regards to implementation of ESG standards.

Engagement with investee companies is an important element in both our ESG integration and our stewardship oversight. Regular meetings with management often cover performance, strategy – including ESG factors where relevant and capital structure. Governance and remuneration issues are more typically raised in the engagement around voting. Companies are reviewed in regular investment team meetings, with the investment case and any concerns re-assessed continually.

### *Manner of Monitoring*

Monitor and actively engage with investee companies on various matters including performance, corporate governance, material environmental, social and governance (ESG) opportunities or risks, capital structure, etc.

### *Oversight:*

Our stewardship policy is covering the mechanism of reviewing sustainability considerations, including ESG, in our investment analysis and activities.

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#### **9. Reporting of Stewardship Activities**

NBP Funds shall place the report on stewardship activities on its website annually.

#### **10. Oversight of Stewardship Responsibilities**

The Stewardship Committee shall ensure implementation of stewardship principles.

#### **11. Stewardship Committee**

The Stewardship Committee comprises of Chief Executive Officer, who shall be the Chairman of the Committee, all the Investment Committee (IC) members including the Chief Investment Officer, Head of Research, Head of Equity, Fund Manager/s, Head of SMA, Head of Risk, Research Analyst/s, where Head of Compliance shall ensure compliance with the Stewardship Policy.

#### **12. Applicability and Review of Stewardship Policy**

This Stewardship Policy shall be applicable on investments that are at least 3% of an investee company's paid-up capital and the policy shall be reviewed and updated at least once in every three years or earlier, if required and the updated policy shall be disclosed on the website of the Company.