



Zerodha Fund House

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Zerodha Asset Management Private Limited

Stewardship Code

1. Introduction

Zerodha Asset Management Private Limited (“ZAMC” or “AMC”) acts as the investment manager to the schemes of Zerodha Mutual Fund (“Zerodha Fund”).

SEBI has vide its circular no. CIR/CFD/CMD1/168/2019 dated December 24, 2019 has mandated all Mutual Funds to follow the Stewardship Code in relation to the schemes’ investments in listed equities of investee companies effective April 1, 2020 (which code is now set out in Annexure 10 of the SEBI Master Circular for Mutual Funds dated June 27, 2024). The Stewardship aims to promote the long-term success of investee companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits investee companies, AMC, investors and enhances the quality of capital markets.

ZAMC has adopted this Stewardship Code, which is structured around the 6 (six) principles enumerated in the said SEBI circular. The Code shall act as guidance to the Investment Team for discharging the stewardship responsibility, however, this code is not intended to curtail/ restrict the fund management activities of the AMC.

The intervention in the investee companies with respect to the Stewardship responsibilities/ activities would be considered even in the case of the passive scheme(s) or where the volume of investment(s) is low. However, ZAMC will not be actively involved/ engaged with the investee companies for the passive schemes. The stewardship responsibility/ activities as mentioned in the code will be discharged on a best effort basis and to the extent possible for the passive schemes/ low investment.

2. Principle 1: Policy on Stewardship Responsibilities

Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.

ZAMC shall discharge its stewardship responsibilities by monitoring and actively engaging 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) opportunities or risks, and capital structure.

2.1. Primary Stewardship Responsibilities

ZAMC shall:

- a. take into consideration, in the investment process, investee companies’ policies and practices on performance (operational, financial, etc.);
- b. take into consideration, in the investment process, investee companies’ policies and practices on material environmental, social and governance matters, opportunities or risks, capital structure, etc;

- c. take into account the strategy, corporate governance practices (including board structure, remuneration, etc.) of investee companies, when undertaking buy and sell decisions;
- d. enhance shareholder/investor value through productive engagement with investee companies;
- e. vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
- f. influence the development of corporate governance standards and corporate responsibility;
- g. be accountable to shareholders/investors within the parameters of professional confidentiality and regulatory regime;
- h. maintain transparency in reporting its voting decisions and other forms of engagement with investee companies.

2.2. Discharge of Stewardship Responsibilities

The AMC shall discharge its stewardship responsibilities through:

- a. voting on shareholders' resolutions, with a view to enhance value creation for the shareholders/investors and the investee companies;
- b. advocating for responsible corporate governance practices, as a driver of value creation;
- c. intervening on material environmental, social and governance opportunities or risks in the investee companies.
- d. Having detailed discussions with management, interaction with investee company boards.

2.3. Responsibility for oversight

The Board of the AMC and the Stewardship Committee shall ensure that there is an effective oversight of the stewardship activities.. The policy shall be reviewed and updated periodically.

2.4. Disclosure of Stewardship Code

This Stewardship Code and any amendments thereto shall be disclosed on the website of the AMC.

The disclosure on the vote cast by AMC for all the resolutions put forth by the investee companies for shareholder's approval will be published on a quarterly basis, as required under the SEBI guidelines. In addition to disclosure on the website as specified above the AMC shall also circulate to unitholders a status report for every financial year, as part of the Abridged Annual report. The report shall *inter alia* include details indicating the compliance/ any variances with the principles laid down in this code. The format and content of the status report will be decided by the AMC.

2.5. Training

A training program shall be formulated for the Investment team and committee explaining the responsibility under the Code along with amendments, if any. This may be done through an external agency or internal team presentation or meetings/calls.

3. Principle 2: Managing Conflicts of Interest

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

3.1. The term “conflict of interest” refers to instances where personal or financial considerations may compromise or have the potential to compromise the judgment of professional activities. A conflict of interest exists where the interests or benefits of the AMC (including its employee, officer or director) conflict with the interests or benefits of its shareholder/investor or the investee company.

3.2. Avoidance of conflict of interest: The employees, officers and directors of the AMC shall undertake 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, employees, officers and directors shall consult with the Board of AMC.

3.3. Identifying conflict of interest: While dealing with investee companies, the AMC may be faced with a conflict of interest, inter alia, in the following instances, where:

- a. The AMC and the investee company are part of the same group; or
- b. The Investee Company is also the institutional client of AMC ;
- c. The AMC is a lender to the investee company;
- d. The investee company is a partner or holds an interest, in the overall business or is a distributor for the AMC’s group;
- e. Any of the group companies or affiliates of the AMC is a supplier or partner of the investee company;
- f. A nominee of the AMC has been appointed as a director or a key managerial person of the investee company;
- g. A director or a key managerial person of the AMC has a personal interest in the investee company;
- h. The AMC (including its employee, officer or director) is likely to make a financial gain, or avoid a loss, at the expense of a shareholder/investor or the investee company.

3.4. **Procedures for Managing Conflicts of Interest:** Procedures shall be put in place by the AMC in case such conflict-of-interest situations arise which may, inter alia, include:

- a. Blanket bans on investments in certain cases;
- b. Having a 'Conflict of Interest' Committee to which such matters may be referred to;
- c. Clear segregation of voting function and client relations/ sales functions.
- d. Policy for persons to recuse from decision making in case of the person having any actual/ potential conflict of interest in the transaction.
- e. Maintenance of records of minutes of decisions taken to address such conflicts.

3.5. Manner of managing conflict of interest:

- a. Holdings of Designated Employees of the AMC covered under the Securities Dealing Code would be maintained by the Compliance department and each designated Employee shall comply with the Securities Dealing Code of the Company.
- b. A potential conflict of interest in relation to an investee company shall be reasonably highlighted in the internal compliance system.
- c. Employees, officers and directors of the AMC will record their outside appointments/professional engagement with the Compliance department.
- d. Save as in the ordinary course of business, the members of the Board shall not engage with the investee companies outside the scope of their duties under the Stewardship Code.
- e. The AMC may consider abstaining from voting when the AMC and the investee company are part of the same group, unless the AMC records rationale for voting on such resolutions.
- f. The business level conflicts shall be resolved on a case-to-case basis by the Committee, after factoring the relevant considerations.
- g. Blanket bans on investments in certain cases.

4. Principle 3: Monitoring of Investee Companies

Institutional investors should monitor their investee companies.

4.1. The AMC shall monitor all investee companies.

4.2. Manner of Monitoring:

The Board shall be responsible for monitoring of the investee companies' business strategy, performance, risk, capital structure, remuneration, corporate governance performance, cultural, social and environmental matters.

The AMC may use publicly available information, sell -side research and industry information and wherever possible shall engage with the investee companies through investor analyst calls or analyst meet at least once in a year, to monitor the investee companies.

Wherever necessary the AMC shall meet the management teams / key managerial personnel of the investee company on a yearly basis and actively participate in investor meetings and general

meetings held by the investee company, through webcast, conference call or other mechanism when possible, which will provide for higher participant/engagement.

4.3. The AMC shall not wish to be actively involved with the investee companies e.g. in case of small investments.

4.4. **Process of Monitoring:** The process of monitoring shall specify, inter-alia, the following:

Different levels of monitoring: Different levels of monitoring may be applied to different investee companies. For example, companies where larger investments are made may involve higher levels of monitoring vis-à-vis companies where the amount invested is insignificant from the point of view of its assets under management.

Areas of monitoring: Areas of monitoring shall, inter-alia, include:

- Company strategy and performance - operational, financial etc.
- Industry-level monitoring and possible impact on the investee companies.
- Quality of company management, board, leadership etc.
- Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
- Risks, including Environmental, Social and Governance (ESG) risks.
- Shareholder rights, their grievances etc.

Insider Information: Identification of situations which may trigger communication of insider information and the procedures adopted to ensure insider trading regulations are complied with in such cases.

Compliance: While dealing with the investee company, the company shall ensure compliance with the Securities Dealing Code.

Board Nomination: The AMC may nominate its representative on the Board of an investee company, wherever it deems necessary.

Review: The Management/Investment Committee shall review the monitoring and engagement activities being carried out by the Investment team on an annual basis.

5. Principle 4: Intervention in Investee Companies

Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.

5.1. Applicability of Intervention:

- a. The AMC shall intervene in the acts/omissions of an investee company, in which it has invested a substantial amount in the share capital of the investee company.
- b. The AMC 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, inequitable treatment of shareholders, non-compliance with regulations, performance parameters, governance issues, related party transactions, corporate plans/strategy, CSR and environment, or any other related matters.

5.2. Decision for Intervention: The decision for intervention shall be decided by the Board based on the following broad parameters:

- a. The AMC shall not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment.
- b. The AMC may consider intervening in matters below the thresholds, if in the reasonable opinion of the Board, the issue involved may adversely impact the overall corporate governance atmosphere, remuneration, strategy, ESG risks, leadership issues, litigation or The AMC's investment.

5.3. Intervention Matrix: The matrix that AMC shall follow for intervention is as follows. All engagement and intervention activities with investee companies shall be conducted in a private and confidential manner to foster constructive dialogue.

- a. **Engagement:** The AMC shall take all reasonable steps to engage with the investee company's management to resolve any concerns of the AMC including steps to be taken to mitigate such concerns.
- b. **Re-engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by the AMC within a reasonable timeframe, The AMC shall take all reasonable steps to re-engage with the management to resolve The AMC's concerns.
- c. **Escalation:** In case there is no progress despite the first two steps, The AMC shall escalate the matter to the Investment Committee. If the Committee decides to escalate, the AMC shall engage with the board of the investee company (through a formal written communication) and

elaborate on the concerns. The AMC may also consider discussing the issues at the general meeting of the investee company (either called by the investee company or requisitioned by the AMC).

- d. **Reporting to the Regulators:** If there is no response or action taken by the investee company despite the first three steps, the AMC may approach the relevant authorities.

In case the AMC's intervention is not successful (either fully or partially), it will not automatically result in the AMC being required to exit its investment in the investee company. The decision to purchase more equity or sell all or part of the AMC's investment in the investee company shall be made by the Board. The Board should consider the outcome of the intervention as an input in its decision-making process.

5.4. Collaboration with other Institutional Investors:

The AMC shall consider collective engagement with other shareholders on a general basis and, when it believes, a collective engagement will lead to a higher quality and/or a better response from the investee company. The AMC may approach, or may be approached by, other Asset Managers, including insurers, mutual funds, or other types of shareholders to provide a joint representation to the investee companies to address specific concerns.

The AMC shall also, where permitted, collaborate with other shareholders, professional associations and/or regulators such as AMFI, Pension Fund Regulatory and Development Authority, SEBI, IRDA and other policy makers to solicit views.

- An illustrative list of matters which require collaborative engagement may include appointment or removal of directors, executive remuneration, change in business, mergers and acquisitions, divestment, matters dealing with inequitable treatment of the shareholders, and related party transactions.

Any collaboration with other institutional investors shall be undertaken in the best interest of the unitholders and shall not be deemed an act of collusion or be construed as 'persons acting in concert' under applicable regulations.

6. Principle 5: Voting and disclosure of voting activity

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Investment team shall follow the guidelines for voting on the resolutions of the investee company as specified in the Voting Policy. The AMC may use the services of external proxy advisory firms for recommendations and shall vote accordingly as per the manner specified in the Voting Policy.

In connection herewith, the Company will exercise adequate safeguards to address any conflicts of interest with regard to any individual investments made by the schemes of the Fund. This may imply that the Company may decide to refrain from exercising its voting rights if considered appropriate.

7. Principle 6: Reporting of Stewardship Activities

Institutional investors should report periodically on their stewardship activities.

The AMC shall report its compliance status with the Stewardship Principles as follows on its website:

Proxy Voting: to be disclosed on a quarterly basis on the website & in the annual report of the MF.

Conflict of Interest policy: to be disclosed on an annual basis.

Policy Updates: Any update in policy to be disclosed as and when done.

Annual Intimation: A Report may also be sent as a part of annual intimation to its clients/beneficiaries.

8. Responsibility

8.1. Investment Team

The respective Investment team shall be responsible for ongoing monitoring of the investee companies, for engaging with the management of the investee companies and for identifying situations which require intervention in the investee companies and manner of this intervention. The investment team shall also be responsible for identifying situations which may give rise to a conflict of interest. The team may seek guidance from the Investment Committee in matters pertaining to intervention in investee companies or conflict of interest.

8.2. Compliance Team

The Compliance Team shall be responsible for disclosures pertaining to stewardship activities including voting reports at a frequency stated by SEBI. The team shall also be responsible for maintaining the records pertaining to the voting activities and maintaining a list of investee companies in which conflict of interest, as defined herein, has been identified.

9. Review

This policy shall be reviewed annually or as required/ needed.

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