

KOTAK MAHINDRA ASSET MANAGEMENT
Responsible Investment Policy Statement – Fixed Income

Background

Kotak Mahindra Asset Management Company Ltd. (“KMAMC”) is committed to the principles of Environmental, Social and Governance (ESG) factors and Responsible Investing (RI). We have been following many principles of ESG. As active managers of fixed income portfolio, other than just financial outlook, we combine multiple factors to take a view on an investee company. Principles of ESG are an integral part of the investment process at KMAMC and are embedded in the investment philosophy.

Integrating ESG into our investment process and philosophy

Fundamental analysis is primary basis of our investment decisions for Fixed Income. ESG factors goes into the fundamental bottom-up investment process, where Fixed Income team seek to identify factors which they believe are key to determining whether a bond / sector would outperform or underperform the market. ESG topics are analysed like any other credit factor; by assessing the potential impact on credit quality and spreads.

ESG parameters issues are incorporated into our investment analysis and decision-making process when we believe they could have a material impact on company’s financial performance.

Investment professionals utilize internal and external resources to assist in the analysis of ESG issues and incorporate ESG into decision making and engagement activities.

Global standards and principles

In formulating our ESG policy, we have given consideration to the United Nations supported Principles for Responsible Investment.

Key ESG Factors in Investment Decision

Governance

Assessing a company’s corporate governance practices is, and has always been, an important aspect of KMAMC’s investment processes. Few of factors which we look into:

- Shareholding structure
- Board composition: Size and structure
- Independence of the Board
- Diversity of Board
- Balance Sheet strength

Environment

We recognize the growing importance that environmental factors play in our global economy. While the importance of these factors will differ by company, sector, or region, we are focused on evaluating how environmental issues may impact a company’s financial performance.

Social factors

We believe that companies will generally be judged to be environmentally and socially responsible corporate citizens if they act in the interests of their shareholders, obey relevant local laws, and seek to comply with prevailing community expectations about corporate responsibilities. We are focussed on evaluating how social issues may impact the financial performance of the Company

Engagement and review

KMAMC – Fixed Income believes that providers of debt do have a role in engaging with issuers on matters with the potential to impact investment returns, which includes ESG related ones. As part of the routine investment research process, its investment teams meet issuers (particularly with primary issuances) and are therefore able to raise questions around ESG factors.

We seek to engage with portfolio companies on ESG factors, this will be prioritised using a risk-based approach. This means focusing on material ESG risks facing the issuer and their specific ESG score, as well as the size of our investments (and whether it is a long-term position). KMAMC – Fixed Income may initiate dialogue with issuers on ESG matters, or may take action as a result of an external event or development. It may conduct such activities on an individual basis, and/or work in collaboration with investors and other key stakeholder.

Whilst engagement may be directly with issuers on ESG matters, where it may be appropriate to do so, KMAMC – Fixed Income may consider more indirect approaches (e.g. engaging on policies which promote ESG transparency by issuers).

However, client expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that as debt investors, we are not owners and as such have more limited legal mechanisms to influence issuers. Furthermore, trying to engage with issuers such as sovereign issuers it is potentially more challenging than influencing a private company wherein our investment is large via-a-vis the size of the Company. In recognition of this KMAMC will continue to review the best ways to carry out ESG engagement for its fixed income portfolio to maximise impact and use of resources, including partnering and collaborating with other investors and stakeholders. We will also utilise the services of third party ESG research providers to augment in-house capabilities

Appointment of an ESG Co-ordinator

We have designated our Lead Credit Analyst, Debt Fund Management, India as ESG co-ordinator with the objective of co-ordinating on all ESG related activities for the asset management company and providing regular inputs for discussion with the fund managers and the Investment Committee. We would also from time to time, seek to engage with and receive inputs provided by external agencies on ESG parameters.