



# **NATIONAL PENSION SYSTEM TRUST**

## **STEWARDSHIP POLICY**

**Version No. 2.0**

### Main Document

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1.0	FY 2024	Initial Policy	Investment and Research Department
2.0	FY 2025	Updated for clarity, structure, and monitoring details	Investment and Research Department

### Version Approval

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## **1. Background**

- i. In the current NPS architecture, NPS Trust acts as an Institutional Investor (asset owner), holding ownership of scheme assets on behalf of NPS subscribers. While the ownership of scheme assets lies with the NPS Trust, Pension Funds play a critical role in acquiring, managing, and disposing of NPS Asset as an Investment Manager. NPS Trust, as asset owner, delegates these responsibilities to Pension Funds acting as asset managers, while retaining oversight and monitoring of activities for NPS Asset.
- ii. Regulation 9 of PFRDA NPS Trust Regulations, 2015 *inter alia*, provides objectives of the National Pension System Trust as monitoring and evaluation of all operational and Service level or investment management activities pertaining to Pension Funds.
- iii. PFRDA, vide its Circular No. PFRDA/2018/63/PF/4 dated November 16, 2018 prescribed compliance to the “Common Stewardship Code” by NPS Trust. As the asset owner, it is critical for NPS Trust to ensure that activities of Pension Funds are in alignment with long term subscriber interest. In regard to the “Common Stewardship Code”, NPS Trust oversees compliance of Pension Funds with the “Common Stewardship Code” mandated for Pension Funds vide PFRDA Circular No. PFRDA/2018/01/PF/01 dated 4th May 2018.

## **2. Objectives**

- i. Stewardship involves the responsible management and oversight of capital to create sustainable, long-term value for subscribers. It enables institutional investors, with their significant stakes, to influence investee companies through engagement, collaboration, and voting, promoting good governance and ethical corporate behaviour. The policy also incorporates globally recognized principles of stewardship, including monitoring, engagement, and conflict of interest management.

- ii. The objectives of this Policy are enumerated below:
  - a. The Policy ensures compliance with the “Common Stewardship Code” set forth by PFRDA, as mandated for the NPS Trust and Pension Funds.
  - b. The Policy provides framework for effective monitoring and evaluation of Pension Funds in regard to the “Common Stewardship Code” and ensures good governance and ethical practices.
  - c. The Policy also aligns with the Trust's mandate to monitor and evaluate the operational and functional activities of intermediaries, ensuring that all activities prioritise the interests of subscribers.

### **3. Applicability**

This Policy applies to NPS Trust and governs the stewardship activities of NPS Trust and enables NPS Trust to ensure Pension Fund’s compliance with the “Common Stewardship Code” as prescribed by the PFRDA.

### **4. Governance Structure**

The Governance Structure for the Stewardship Policy shall comprise the Board of Trustees, the Investment Committee and Investment and Research Department in NPS Trust and all the Pension Funds.

- i. **Board of Trustees:** The Board of Trustees, NPS Trust shall be responsible for approval of the Stewardship Policy in NPS Trust including refinements, if any, based on recommendations of the Investment Committee.
- ii. **Investment Committee of the Board:** The Investment Committee of the Board is a Sub Committee of the Board of Trustees, NPS Trust and its functions shall include review and recommendation for modification of Stewardship Policy of NPS Trust and monitoring implementation thereof.

- iii. **Investment and Research Department:** The Investment and Research Department shall be responsible for the following:
- a. Owning, maintaining, and periodically updating the Stewardship Policy to align with regulatory changes, market conditions, and best practices;
  - b. Implementing, monitoring, and enforcing the policy, ensuring compliance with internal, regulatory, and legal requirements;
  - c. Providing quarterly updates on stewardship activities performed by Pension Funds to the Investment Committee of the Board of Trustees, NPS Trust;
  - d. Addressing issues, if any related to stewardship activities and presenting them to the Investment Committee for further recommendations to the Board of Trustees, NPS Trust, as necessary;
  - e. The Detailed procedures and processes for effective implementation of this policy shall be outlined in the internal Standard Operating Procedures (SOPs).
- iv. **Pension Funds:** Pension Funds shall adhere to and undertake activities to ensure their compliance to the “Common Stewardship Code” and report the activities undertaken to NPS Trust on a quarterly basis within 10 days of the end of the quarter in format as prescribed from time to time.

## **5. Review of Policy**

An annual review of the policy shall be undertaken, incorporating feedback from intermediaries and market experts if needed, to ensure its continued relevance and effectiveness. This review will focus on regulatory changes, market trends, and best practices. However, if required, more frequent updation/ review shall also be undertaken.

## 6.Compliance to “Common Stewardship Code”

- i. “Common Stewardship Code” is a set of principles that an Institutional Investor/ Asset Manager follows to monitor and engage with an Investee Company with the goal of protecting subscriber interest and to improve Corporate Governance. PFRDA vide circular No. PFRDA/2018/01/PF/01 dated 4th May 2018 has mandated the “Common Stewardship Code” for the Pension Funds (asset manager). NPS Trust, as the asset owner of NPS Assets, regularly reviews the activities of Pension Funds to ensure adherence to the “Common Stewardship Code”. NPS Trust reviews quarterly reports submitted by Pension Funds, and evaluates their compliance. Based on these assessments, NPS Trust issues observations and recommendations to Pension Funds.
- ii. Principle wise activities carried out by NPS Trust to monitor the activities of Pension Funds and ensure compliance with the “Common Stewardship Code” are given below:

PRINCIPLES OF COMMON STEWARDSHIP CODE
<p><b>Principle 1 - Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.</b></p> <p>i. <b>Compliance:</b> NPS Trust shall have a Stewardship Policy and publicly disclose the updated policy on its website. The policy shall be updated annually or earlier, if so required. The Policy shall provide an overview of how NPS Trust as an asset owner discharges its stewardship responsibilities.</p> <p>ii. <b>Monitoring:</b> NPS Trust shall review that Pension Funds have duly formulated, reviewed and publicly disclosed their updated Board approved stewardship policy on their website. Pension Funds are required to review their Stewardship Policy at least once in a year and place the status thereof, to the Board of Directors, for approval.</p>

**Principle 2 - Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**

- i. **Compliance:** Under the NPS architecture, NPS Trust, as the asset owner, entrusts investment management responsibilities to Pension Funds, functioning as asset managers on behalf of NPS Trust. The Pension Funds make investment decisions and NPS Trust focuses on monitoring their activities ensuring alignment with stewardship principles and subscriber interests.
- ii. **Monitoring:** NPS Trust shall review that Pension Funds have a Board approved Policy for management of situations in the nature of conflict of interest or that such policy is part of their comprehensive Stewardship Policy.

NPS Trust shall review the instances of 'conflict of interest' reported by Pension Funds along with the actions taken on occurrence of such situation. Conflict of Interest situations may include but shall not be limited to, quarterly declarations of interests by key personnel, issues like self-dealing, front running, and insider trading, Investee Company being sponsor group company of Pension Fund, etc.

**Principle 3 – Institutional investors should monitor their investee companies.**

- i. **Compliance:** Under the NPS architecture, NPS Trust shall actively monitor the activities of Pension Funds to ensure alignment with stewardship principles and the interests of subscribers. NPS Trust focuses on monitoring activities reported by Pension Funds ensuring alignment with stewardship principles and subscriber interests.
- ii. **Monitoring:** NPS Trust shall review that Pension Funds have a Board approved Policy for monitoring Investee Companies or that such policy is a part of their comprehensive Stewardship Policy. Areas of monitoring may include but shall not be limited to assessing the quality of company management, evaluating the composition and effectiveness of the Board of Directors including the role of

Independent Directors, reviewing remuneration structures, analysing operational and financial performance, identifying ESG risks, and ensuring compliance with regulations concerning insider information, etc.

**Principle 4 - 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.**

- i. **Compliance:** Under the NPS architecture, NPS Trust shall actively monitor the activities of Pension Funds to ensure alignment with stewardship principles and the interests of subscribers. NPS Trust shall monitor the activities of Pension Funds to ensure adherence to stewardship principles and alignment with subscriber interests.
- ii. **Monitoring:** NPS Trust shall review that Pension Funds have a policy on intervention in their investee companies or that such policy is part of their comprehensive Stewardship Policy. Situation requiring interventions may include poor financial performance, corporate governance practices, remuneration/ strategy/ leadership issues/ litigations, etc. Further examples of engagements, including engagements done in collaboration with other institutional investors, undertaken by Pension Funds may include but shall not be limited to, holding meetings with management/ Board, routine engagements, attending earnings calls, etc. The Key Indicator for evaluation of Pension Funds shall be number of engagements undertaken and percentage coverage, i.e., percentage of investee companies engaged with, compared to the total portfolio.

**Principle 5 – Institutional investors should have a clear policy on voting and disclosure of voting activity.**

- i. **Compliance:** Under the NPS architecture, Pension Funds as Asset Managers undertake investment decisions and are uniquely positioned to exercise informed

voting on the resolutions of investee companies. In acknowledgement thereof, NPS Trust reviews the voting activities of Pension Funds.

NPS Trust shall have a 'Voting Policy' and publicly disclose the policy on its website. NPS Trust has adopted the voting guidelines prescribed by PFRDA Circular No. PFRDA/2017/17/PF/1 dated April 20, 2017 and disclosed the same on its website. Voting Policy is placed as Annexure to this Policy.

To support Pension Funds in analyzing resolutions, NPS Trust may appoint proxy advisors. These advisors shall assist in evaluating the resolutions of investee companies, ensuring that Pension Funds are equipped with expert insights. Furthermore, NPS Trust encourages the use of technology and has implemented a customised Voting Platform for Pension Funds to record, track, and submit their voting decisions seamlessly.

Reporting requirements of NPS Trust under PFRDA Circular No. PFRDA/2017/17/PF/1 dated April 20, 2017.

- a. NPS Trust shall disclose the general policies and procedures for exercising the voting rights in respect of shares held by NPS Trust on its website;
  - b. NPS Trust shall report to the Authority regarding specific issues of non-compliance of voting guidelines by Pension Fund/ adverse observations or 'Comments' separately;
  - c. NPS Trust shall place on its website, the quarter wise majority voting decision on the investee companies on a quarterly basis;
  - d. NPS Trust shall submit a summary report on voting rights exercised to Authority post approval by the Board of Trustees, NPS Trust.
- ii. **Monitoring:** NPS Trust shall review that Pension Funds have a Board approved 'Voting Policy' for voting activities undertake in respect of Investee Companies or ensure that such policy is part of their comprehensive Stewardship Policy.

NPS Trust shall review that such voting framework and guidelines prescribed under PFRDA Circular No. PFRDA/2017/17/PF/1 dated April 20, 2017 are adhered to by the Pension Funds including the coordinating Pension Fund.

NPS Trust shall review that the Pension Fund has voted on important decisions that may affect the interest of investors. NPS Trust shall also review that the voting decision and rationale recorded for the voting decision by the Pension Fund is prudent and adequate, and issue observations to Pension Funds, if any;

NPS Trust shall ensure that Pension Funds disclose the general policies and procedures for exercising the voting rights on their website;

NPS Trust shall review the Annual Audit Certificate submitted by Pension Funds on voting reports disclosed for any adverse comments reported by auditor.

**Principle 6 – Institutional investors should report periodically on their stewardship activities.**

- i. **Compliance:** Reporting requirements of NPS Trust shall be as follows:
  - a. NPS Trust shall submit a draft report on implementation of every principle of “Common Stewardship Code” on a quarterly basis in the prescribed format to the Authority within one month of end of each quarter. The final report shall be submitted post approval by Board of Trustees, NPS Trust;
  - b. NPS Trust shall quarterly submit to PFRDA, observations on the stewardship activities undertaken by Pension Funds, if any;
  - c. NPS Trust shall place quarterly reporting on proxy voting and annual reporting on Summary of Proxy Voting undertaken by Pension Fund, on its website within one month of end of each quarter;

- d. NPS Trust shall place an annual report on implementation of every principle of “Common Stewardship Code” on its website, post approval by the Board of Trustees, NPS Trust;
- ii. **Monitoring:** NPS Trust shall review that Pension Funds have uploaded on their website, within one month of end of the Quarter/ Year ensuring subscriber awareness and transparency:
  - a. Annual Report on implementation of every principle of “Common Stewardship Code”;
  - b. A quarterly report containing a summary of the voting decisions exercised along with rationale;
  - c. Annual reporting on the summary of Proxy voting undertaken by the Pension Fund.
  - d. Annual Audit certificate on voting reports disclosed;
  - e. Submit quarterly Stewardship reports to NPS Trust in format provided by NPS Trust.

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