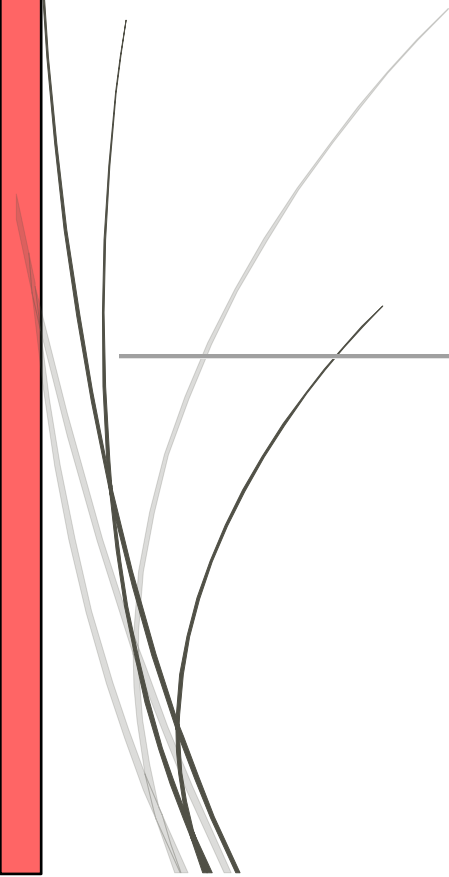




Alfalah Investments

# AAML STEWARDSHIP POLICY

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## **I. Background**

The Securities and Exchange Commission of Pakistan (SECP) issued "STEWARDSHIP GUIDELINES FOR INSTITUTIONAL INVESTORS" on May 16, 2022. The adoption of these guidelines is on comply or explain basis, for Institutional Investors including Asset Management Companies, Pension Fund Managers, Private Fund Management Companies and Employees' Contributory Funds managed by Investment Advisors with equity holding in companies listed on Pakistan Stock Exchange.

Accordingly, this "STEWARDSHIP POLICY" is prepared and implemented with effect from June 2023.

## **II. Objective and Applicability**

Alfalah Asset Management Company "(AAML)" is managing Mutual Funds, Pension Funds, and Investment Advisory Portfolios. We consider our research and investment activities as an integral part of our investment process. We believe fruitful dialogue with investee companies leads to higher corporate governance which ultimately becomes an act of value co-creation between the unitholders of our Mutual and Pension Funds and investee companies. 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 Fund Manager, we will continue to enhance the capabilities necessary for carrying out our stewardship responsibilities and intends to contribute to the development of Pakistan's economy and society through this approach.

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

The architecture of Policy is based on the following Principles:

1. Principle 1- Stewardship Policy
2. Principle 2- Voting Policy and Its Disclosure
3. Principle 3- Monitoring Investee Companies
4. Principle 4- Policy on Engagement with the Investee Companies
5. Principle 5- Managing Conflict of Interest
6. Principle 6- Incorporating Sustainability Consideration

## **III. Principle 1- Stewardship Policy**

Institutional Investor shall formulate a clear policy approved by its Board of Directors on how they intend to fulfil their stewardship responsibilities and publicly disclose it.

### **Section 1. Primary Stewardship Responsibilities.**

Our primary stewardship responsibilities include:

1. Stewardship responsibilities are regarded as integral to AAML's long-term approach to investment. AAML's investment Committee exercises close oversight of listed Equity Securities and Companies, Research Team meets them regularly to monitor performance as well as Investment Committee undertakes voting and engagement.

2. We recognize a fiduciary responsibility for the stewardship oversight of listed companies and other issuers whose securities we hold on behalf of our clients.
3. Enhance the unitholder's value through constructive engagement with investee companies.
4. Vote in the Board and Shareholders meetings and engage with investee companies with a view to enhancing value creation for unitholders and investee companies.
5. Stewardship responsibilities include monitoring and actively engaging with investee companies (i.e. listed equities where Mutual Funds and Pension Funds have made investments) 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, capital structure, etc.
6. AAML May face potential conflicts of interest, which are addressed by the overriding principle that "INVESTORS' INTERESTS ARE PUT FIRST".
7. We believe that environmental, social & governance (ESG) factors can impact the sustainability of companies' financial returns. We integrate ESG into our investment process by considering these factors alongside others.

## **Section 2. Discharge of Stewardship Responsibilities**

We have formulated the following policies to fulfil our stewardship responsibilities in the equity investment process:

- We position "dialogue with investee companies" at the center of our investment process during Investment Committee Meetings and strive to evaluate corporate values.
- We focus on "dialogue with investee companies", to obtain deeper insight and understand corporate strategies, through detailed discussions with management, interaction with different officials, voting in board or shareholders meetings, etc.
- We strive to create unitholders' value through regular monitoring and 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.
- We express our opinion as a responsible investor and exchange opinions in "dialogue with investee companies", which we believe help us in creating corporate value, resulting in benefits for both our unitholders and investee companies.
- We take into consideration, the corporate governance practice of investee companies, when undertaking buy and sell decisions.

- We exercise voting on shareholders' resolutions (as per our board approved voting policy), with a view to enhancing value creation for shareholders/ investors and investee companies.
- We advocate for responsible corporate governance practices, as a driver of value creation.
- We regularly monitor and intervene (wherever necessary) on material environmental, social, and governance (ESG) opportunities or risks in investee companies.

### **Section 3. Oversight of Principle 1- Stewardship Responsibilities:**

A stewardship policy, approved by the board of directors, is disclosed on the website of the company.

### **IV. Principle 2- Voting Policy and Its Disclosure**

*Institutional Investor shall have a clear policy on voting including proxy voting and give adequate disclosure of its voting activity.*

### **Section 1. Voting and Disclosure of Voting Activity**

The Securities and Exchange Commission through NBFC and NE Regulations 2008, Regulation clause 38A, directed Asset Management Company to formulate a policy on Proxy Voting.

In light of the Regulation, AAML formulates a comprehensive "Proxy Voting Policy". The Investment Committee of the company is responsible for the oversight and implementation of this policy. AAML in its role as the Management Company of the Mutual and Pension Funds under its management has an obligation to act in the best interests of the Mutual Funds and Pension Funds. This responsibility includes exercising the voting rights attached to equity securities held by the Mutual and Pension Funds.

Investment Committee takes decisions regarding exercising proxy voting rights in accordance with our Board approved Proxy Voting Policy (available on our website), following consultation with the proxy voting committee.

Our Board approved Proxy Voting Policy provides:

- Voting procedures
- Proxy proposal evaluation
- Fiduciary duty
- Conflicts of interest
- Proxy voting guidelines
- Record keeping
- Disclosures

### **Section 2. Discharge of Voting Policy Responsibilities**

We have formulated the following responsibilities regarding voting and disclosure of voting activity in fulfilling our stewardship responsibilities:

- The Investment Committee will have the discretion in deciding whether or not to take part in the proxy voting and evaluation of the Proxy Proposal. Where the Investment Committee decides to take part in the proxy voting, it is the policy of the Company to exercise such voting rights of the Mutual and Pension Funds in accordance with the best interests of the Unit Holders.
- The right to vote a proxy with respect to securities held by the Funds is an asset of the Funds. The Investment Committee to which the authority to vote on behalf of the Funds is delegated acts as a fiduciary of the Funds and must vote proxies in a manner consistent with the best interest of the Funds and their Unit Holders. In discharging this fiduciary duty, the Investment Committee must avoid conflicts of interest and must vote in a manner consistent with the guidelines set out in Proxy Voting Policy.
- The Company recognizes that there is a potential conflict of interest when we vote on a proxy solicited by an issuer with whom we have any material business or personal relationship that may affect how we vote on the issuer's proxy. We believe that oversight by the Investment Committee ensures that proxies are voted with only the Unit Holders' best interests in mind.
- The Issuers' proxies most frequently contain proposals to elect corporate directors, to appoint external auditors and set their compensation, to adopt or amend management compensation plans, and to amend the capitalization of the company. These guidelines summarize the corporate governance principles which the Funds will generally support through the exercise of votes on these issues. However, these guidelines are not mandatory and the Investment Committee is the final authority to decide on any matter in the best interest of the Unit Holders of the Funds.
- The Company supports resolutions that promote the effectiveness of boards in acting in the best interests of shareholders of the investee company. We will generally vote in favor of the election of directors for boards having a majority of independent directors and an independent chair, where the chairs of all board committees and at least a majority of committee members are independent.
- Where all members of an issuer's audit committee are independent; the Company will generally vote on proposals regarding the appointment of auditors and the approval of the recommended auditor compensation.
- The goal of the Company is to support compensation arrangements that are tied to long-term corporate performance and shareholder value. Arrangements that are considered to be overly generous or excessively dilutive to other shareholders will not be supported.
- The Company recognizes the need for the Management of an issuer to have flexibility in the issue of shares to meet changing financial conditions. Changes in capitalization will generally be supported where a reasonable need for the change is demonstrated; however, changes

resulting in excessive dilution of existing shareholder value will not be voted on.

- The Record of the actual exercise of votes in the meeting i.e. for/against/abstain on the investee company's proposals will be maintained by the Operations Department of the Company.
- The Company shall disclose in the annual report of Funds the cases where the Company on behalf of Funds did not participate in shareholders' meetings.

### **Section 3. Oversight of Principle 2- Voting Policy Responsibilities:**

AAML Proxy Voting Policy, approved by the board of directors, is disclosed on the website of the company.

The Investment Committee of the Company evaluates each resolution of the underlying investee companies and casts votes in the best interest of the unitholders.

### **V. Principle 3- Monitoring Investee Companies**

Institutional investors shall monitor their investee companies in order to enhance Investee Company's long- term value and protect their long-term investments.

#### **Section 1. Monitoring of Investee Companies**

The Securities and Exchange Commission through Circular 28 of 2021 dated October 28, 2021, issued criteria for all Asset Management Companies while making investments in equity securities.

Criteria of Investment of Equity Securities is based on the following key aspects.

- An AMC shall ensure that the Investment of Funds in Equity Securities of the following companies shall not exceed 10% of their overall equity portfolio of Funds on a monthly average basis.
- The Company is not traded on the regular trading counter of the Pakistan Stock Exchange.
- The minimum free float of the Company is less than 15% of the total outstanding shares.
- The Securities of the Company are traded less than 50% of the total trading days during the past six months or from the date of listing as the case may be.
- Company's paid-up capital is fully eroded owing to accumulated losses as per the annual audited accounts or half-yearly limited scoped reviewed accounts, whichever is latest.
- The AMC shall not invest in any Company against which winding-up proceedings have been initiated and/ or a qualified opinion on the going concern assumption has been issued by its statutory auditors.
- The monitoring will be based on publicly available information on Company's website, Data available on the Pakistan Stock Exchange website, through meetings with officials of the Company, and industry information.
- While the endeavor would be 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.

- Monitoring will include but need not be restricted to strategy and business outlook, financial performance, management evaluation and corporate governance issues, capital structure, and key risk areas.

## **Section 2. Manner of Monitoring of Investee Companies**

We have formulated the following policies regarding monitoring of investee companies in fulfilling our stewardship responsibilities:

- The Equity Fund Managers and Research team will be responsible for monitoring all the equity securities before making any investment in Funds.
- The team will be responsible for monitoring the investee company's business strategy, performance, risk, and capital structure on a best-effort basis.
- Research team may use publicly available information, research, and industry information and wherever possible shall engage with the investee companies through investor analyst calls or analyst meetings at least once 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 yearly 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, which will provide for higher participant/ engagement.
- 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 that is being provided by the management of Investee Company, monitoring will be done through other sources (e.g., third-party research, etc.).
- Research team shall strictly adhere to regulations and the internal Employee Trading Policy on the prohibition of insider trading while seeking information from investee companies (and any other source) for the purpose of monitoring.

## **Section 3. Oversight of Principle 3- Monitoring Investee Company:**

The SECP Circular 28 of 2021 dated October 28, 2021 clearly articulates the framework and guidelines for Investment in Listed Equity Securities and continuous monitoring of investee companies.

## **VI. Principle 4- Policy on Engagement with the Investee Companies**

Institutional Investor shall develop a policy for engagement with the investee companies.

## **Section 1. Intervention in Investee Companies**

The concerns may arise with respect to the investee companies from time to time mainly on account of insufficient disclosures, non-compliance to regulations, performance parameters, governance issues, corporate plans/ strategy, corporate social responsibility, environment, and social matters.

The following features regarding intervention and escalation by AAML in investee companies in fulfilling our stewardship responsibilities:

### **Applicability**

AAML may intervene in the acts/ omissions of the investee company, where in the opinion of AAML 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, Corporate Social Responsibility and environment, or any other related matters.

### **Intervention**

The decision for intervention shall be decided by the Stewardship Committee on a case-to-case basis based on all available facts of the investee company at that point in time. AAML may consider intervening in matters, if, in the reasonable opinion of the Stewardship Committee, the issue involved may adversely impact the overall corporate governance atmosphere or in the interest of the unitholders.

## **Section 2. Manner of Engagement and Escalation**

The engagement and escalation practices will be as follows:

- **Engagement:** The Research team shall take all reasonable steps to engage with the investee company's management to resolve any concerns including steps to be taken to mitigate such concerns.
- **Re-engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by the investment team within a reasonable timeframe, the research team shall take all reasonable steps to re-engage with the management to resolve concerns.
- **Escalation:** In case there is no progress despite the first two steps, the research team shall escalate the matter to the stewardship committee. If the stewardship committee decides to escalate, the research team shall engage with the board of the investee company



(through a formal written communication) and elaborate on the concerns. The research team may also consider discussing the issues at the general meeting of the investee company (either called by the investee company or requisitioned by AAML).

- **Reporting to the Regulators:** If there is no response or action taken by the investee company despite the first three steps. AAML may approach the relevant authorities (e.g., SECP, FBR).

In all cases of engagement with the management and/ or the Board of Directors of an investee company, all communications and discussions are to be conducted in a confidential manner. The objective of the interactions is to play a constructive role in enhancing the value of the investment in the equity of the investee companies to benefit the unitholders.

In case AAML intervention is not successful (either fully or partially), it will not automatically result in AAML being required to exit its investment in the investee company. The research team, under the direction of the stewardship committee, will take a decision based on the existing environment and expectations.

### **Section 3. Oversight of Principle 4- Monitoring Investee Company:**

Our stewardship policy is comprehensively covering the mechanism of active intervention in investee companies. It enlists the situations in which we may intervene in the acts/ omissions of the investee companies. It also provides a detailed mechanism for intervention, engagement, re-engagement, escalation, and Reporting to the Regulator.

## **VII. Principle 5- Managing Conflicts of Interest**

*Institutional investor shall put in place a robust policy on identifying and managing conflicts of interest that may impair their stewardship behaviour, to advance the interest of investors.*

### **Section 1. Managing Conflicts of Interest**

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 AAML (including its employees, or directors) conflict with the interests or benefits of its unitholders or the investee companies. We have an Ethics & Code of Conduct Policy which covers Conflict of Interest, the following aspect of conflicts of interest in fulfilling our stewardship responsibilities:

#### **Avoiding Conflict of Interest:**

- The Employee must take all reasonable steps to avoid any conflict of interest between the

Company and/ or such employee and any Client or other entity.

- In the event that any such conflict should arise, Employees should take all reasonable steps to resolve such conflict and hereby ensure fair treatment to all clients.
- Employees should never treat a Client's interests as subordinate or inferior to the interests of the Company or such employee.
- As soon as a conflict of interest situation arises, the employee should immediately inform his supervisor, or the head of the department, or risk management or compliance or senior management.
- Employees must always be alert to possible private conflicts of interest.
- Even the appearance of a conflict between personal gain and the interests of the Company or its Clients can erode the trust and confidence on which the Company's reputation rests and hence must be avoided.
- No Employee or Related Person may act in respect of any transaction involving persons or organizations with whom such Employee or Related Person has any significant connection or financial interest.
- Any Employee and any Related Person must find out the interests of Clients first and avoid any dealings in Investments or engaging in other activities which could adversely affect Clients.

**Identifying Conflict of Interest:**

- While dealing with investee companies, AAML may face situations where conflict of interest may arise, inter alia, in the following instances, where:
  - AAML and the investee company are part of the same group.
  - Investee Company being a group or associate company.
  - Investee Company is a client (unitholder) of AAML.
  - Investee Company has a substantial/ material business relationship with AAML.
  - The investee company holds an interest, in the overall business or is a distributor for AAML.
  - A director or a key managerial person of AAML has a personal interest in the investee company.
  - AAML (including its employees, or director) is likely to make a financial gain, or avoid a loss, at the expense of the unitholder or the investee company.

**Section 2. Manner of Managing Conflict of Interest**

The mechanism to eliminate the influence of conflicts of interest in the above situations includes the following:

- Board-approved Employees trading policy.
- AAML will not invest in unlisted equity of group or associate companies.
- AAML always seeks to ensure that it acts in the best interest of all unitholders.
- Where a potential/ actual conflict is identified, the matter will be referred to the Head of Compliance and Head of Risk who, if appropriate, will convene the stewardship committee meeting. Record of the decision taken and supporting rationale will be documented in the form of minutes of the meeting.
- AAML will manage conflicts of interest by requiring access to employees, stewardship committee members, and other personnel involved in implementing this policy to:
  - Avoid conflicts of interest where possible.
  - Identify and disclose any conflicts of interest.
  - Carefully manage any conflicts of interest.
  - Follow this policy and respond to any breaches.
- Once the conflict of interest has been appropriately disclosed, the Stewardship Committee (excluding the member disclosing the conflict of interest) will take the required decisions.
- As a rule, in all cases of conflicts of interests the voting decisions of AAML will be based on the best interests of the unitholders.

### **Section 3. Oversight of Principle 5- Managing Conflict of Interest:**

Our stewardship policy clearly articulates the situations where conflicts of interest may arise and the manner of managing them.

## **VIII. Principle 6- Incorporating Sustainability Considerations**

Institutional Investor shall integrate their policy with corporate governance and sustainability considerations including environmental, social and governance (ESG) factors to deliver sustainable returns in the long-term interest of investor.

### **Section 1. Incorporating ESG Considerations**

- We believe that environmental, social & governance (ESG) factors can impact the sustainability of companies' financial returns. We integrate ESG into our investment process by considering these factors alongside others.
- 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.

## **Section 2. 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.

## **Section 3. Oversight of Principle 6- Incorporating Sustainability Considerations:**

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

## **IX. Periodic Reporting on Stewardship Activities**

We are committed to providing transparency on our stewardship. We will report our stewardship activities annually via our website.

## **X. Stewardship Committee**

The Stewardship Committee comprises of Chief Investment Officer, Head of Research, Head of Equity/ Equity Fund Manager, Head of SMA, Head of Risk, and Head of Compliance shall ensure the implementation of stewardship principles.

## **XI. Annual Review of Stewardship Policy**

This Stewardship Policy shall be reviewed and updated at least annually or earlier, if required and the updated policy shall be disclosed on the website of the Company.