

## ***Stewardship Code and Voting Policy of ValueQuest S.C.A.L.E Fund***

<b>Sl. No</b>	<b>Particulars</b>	<b>Remark</b>
1	Date of original approval	28 <sup>th</sup> March, 2023
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3	Approved By	ValueQuest Compliance Team
4	Policy Owner	ValueQuest Scale Fund

## 1. Introduction

ValueQuest S.C.A.L.E Fund ('the Fund') is a scheme of ValueQuest Alternative Investment Trust (hereinafter referred to as 'the Trust'). The Trust is registered as a Category II Alternative Investment Fund ('AIF') under the provision of Securities and Exchange Board of India (SEBI) (Alternative Investment Fund) Regulations, 2012 ("SEBI AIF Regulations" or "Regulations").

Amicorp Trustees (India) Private Limited, acting as trustee on behalf of the Fund has appointed ValueQuest Investment Advisors Private Limited as Investment Manager of the Fund (hereinafter or 'the Manager entity'). The Investment Manager is responsible for managing the affairs of the Fund and formulation of policies and procedures in accordance with the Fund documents and applicable regulations for effective implementation and management of Fund's investments and operations.

Institutional investors across the world are expected to shoulder greater responsibility towards their clients/beneficiaries, commonly referred to as 'Stewardship Responsibilities'. In this regard, SEBI vide Circular<sup>1</sup> dated 24 December 2019 (the 'Circular') prescribed a 'Stewardship Code' which is required to be mandatorily followed by all Mutual Funds and all categories of AIFs, in relation to their investment in listed equities. The Stewardship Code was proposed to come into effect from the financial year beginning 1 April 2020. However, amidst CoVID-19 pandemic, SEBI vide Circular<sup>2</sup> dated 30 March 2020, extended the implementation date to 1 July 2020.

Stewardship responsibilities include 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, capital structure, etc. Such engagement may be through detailed discussions with management, interaction with investee company boards, voting in board or shareholders meetings, etc.

SEBI has mandated all AIFs to formulate a comprehensive policy on the discharge of its stewardship responsibilities, and as part of that, additionally formulate a Voting Rights Policy in order to exercise the voting rights of the Fund in accordance with the best interests of the Investors of the Funds. Both these policies are required to be publicly disclosed, reviewed and updated on a periodic basis. Hence, this Policy has been adopted to comply with the prescribed requirements.

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<sup>1</sup> "Stewardship Code for all Mutual Funds and all categories of AIFs, in relation to their investment in listed equities" ([https://www.sebi.gov.in/legal/circulars/dec-2019/stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-in-relation-to-their-investment-in-listed-equities\\_45451.html](https://www.sebi.gov.in/legal/circulars/dec-2019/stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-in-relation-to-their-investment-in-listed-equities_45451.html))

<sup>2</sup> "Extension of deadline for implementation of the circular on Stewardship Code for all Mutual Funds and all categories of AIFs due to the CoVID-19 pandemic" ([https://www.sebi.gov.in/legal/circulars/mar-2020/extension-of-deadline-for-implementation-of-the-circular-on-stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-due-to-the-covid-19-pandemic\\_46451.html](https://www.sebi.gov.in/legal/circulars/mar-2020/extension-of-deadline-for-implementation-of-the-circular-on-stewardship-code-for-all-mutual-funds-and-all-categories-of-aifs-due-to-the-covid-19-pandemic_46451.html))

VALUEQUEST INVESTMENT ADVISORS PVT. LTD.

Regd. & Corp. Address:

Quest, 1073, Rajabhau Desai Marg, Behind Beau Monde Towers, Prabhadevi, Mumbai – 400025, India.

☎ 022 2439 4444 ✉ [backoffice@valuequest.in](mailto:backoffice@valuequest.in) 🌐 [www.valuequest.in](http://www.valuequest.in) CIN: U65991MH2010PTC198452 SEBI Regn. No.: INP000003724

The responsibility of the Investment Manager towards the AIF includes, inter alia, the discharge of the stewardship responsibilities, as laid out in this Policy. Further, this Policy will apply to the Investment Manager, the Fund and the Investors of the Fund.

## **2. Discharge of Stewardship responsibilities**

Principle Number 01 and SEBI's Guidance:

***Every institutional investor should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.***

Fund's Policy on implementation of the above Principle:

As part of the stewardship responsibilities, the Investment Manager shall undertake following activities:

- a. The Investment Manager shall ensure that a comprehensive Policy on discharge of Steward responsibilities is in place at all times. The Investment Manager shall review this Policy on a periodic basis and publicly disclose on the Investment Manager's website -<https://valuequest.in/>.
- b. The Investment Manager shall monitor and actively engage with investee companies on various financial, operational and other matters like performance, corporate governance, strategy, risk identification and management, etc. This would entail tracking relevant news and updates like financial results and corporate disclosures, regular interactions with the investee managements, relevant voting at shareholder meetings, representation to the board of directors if required, etc. Further, these activities shall not be outsourced.

*For further information, please refer to the following parts of this Stewardship Policy: **Error! Reference source not found.**, **Error! Reference source not found.** and **Error! Reference source not found.***

- c. The Investment Manager shall provide a copy of this Policy document on their joining and on subsequent updates of the document. The Investment Manager shall organise periodic trainings for the relevant personnel at the time of their onboarding.

Principle Number 02 and SEBI's Guidance:

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

Fund's Policy on implementation of the above Principle:

As part of the stewardship responsibilities, the Investment Manager shall undertake following activities:

- a) The investment manager shall put in place a comprehensive Policy for identifying, monitoring and managing conflicts of interest at all times. The policy shall be reviewed and updated periodically by the Investment

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Manager and publicly disclosed along with rest of the Stewardship Policy The policy shall briefly address the following:

- Identifying possible situations where conflict of interest may arise;
  - Procedures to be put in place to mitigate the conflicts of interest; and
  - Periodical review and update of such policy and public disclosure.
- b) The Investment Manager shall always act in the best long-term interests of the Fund's beneficiaries. While addressing any potential conflicts, the investment manager shall put the interests of the Fund's beneficiaries above its own interests.
- c) ***For identification of potential conflicts of interests:***
- The Investment Manager shall formulate a questionnaire in order to check for potential conflict of interests.
  - Such disclosures shall be given by the Investment Manager and its employees on introduction of this Policy and also at the time of joining of new employees. Further, these disclosures shall be refreshed annually, or whenever there is a material update to the information.
  - Misrepresentation of the facts or failure to disclose relevant conflict shall be severely dealt with, including termination of said employee.

*For further information on identification of potential conflicts of interest, please refer to the **Annexure** to the policy.*

- d) ***For mitigation of conflicts of interest:*** In case any potential conflict of interest is identified, the following procedures shall be implemented to mitigate such conflict of interest:
- The situation shall be reviewed by the Investment Manager, after the conflicted person has recused themselves, to ensure that the interests of the Fund's beneficiaries are placed above its own interests.
  - Resulting decisions may include blanket ban on certain types of investments, not investing in certain companies, or unwinding existing investments of the conflicted person or the Fund.
  - The Investment Manager shall put in place a 'Conflict of Interest' Committee with representation from the Fund's beneficiaries to deal with conflicts arising from potential / unforeseeable situations.
  - Wherever applicable, a person having any actual/ potential conflict of interest in an existing / proposed transaction shall be recused from participating in voting decisions relating to such transaction and client relations / sales functions.
  - The minutes of all meetings related to conflict-of-interest discussions shall be recorded for future review and follow-up.
- e) The Investment Manager will be transparent and make disclosures with respect to conflicts of interest situation that the Investment Manager determines may have arisen (or which seem likely to arise) between the Interested Parties and the Fund (or any of its Investee Entities).

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- f) The Interested Parties shall exercise a standard of good faith in their dealings with the Fund and any of its Investee Entities.
- g) The Investment Manager shall provide a copy of the Policy document to the employees on their joining, and on subsequent updates of the document. The Investment Manager shall organise periodic trainings for the relevant personnel at the time of their onboarding.

Principle Number 03 and SEBI's Guidance:

***Institutional investors should monitor their investee companies.***

Fund's Policy on implementation of the above Principle:

- a) The Investment Manager shall monitor the investee companies of the Fund considering all aspects including the following:
- Performance of the companies;
  - Corporate governance;
  - Strategy;
  - Risks, etc.
- b) The Investment Manager shall identify the following for monitoring of the investee companies:
- Different levels of monitoring for different investee companies;
  - Areas of monitoring;
  - Mechanism for monitoring;
  - Situations where the fund would not like to be involved with the investee companies; and
  - Situations which may trigger communication of insider information of the investee companies.
- c) The areas of monitoring of the investee companies shall include the following:
- The aspects of investee company strategy and performance such as operational, financial, capital allocation decisions like capacity expansions or mergers and acquisitions, etc.;
  - Industry-level monitoring and possible impact on the Investee Companies;
  - Quality of Company Management, Board of Directors, leadership, etc;
  - Corporate Governance including remuneration, structure of the Board, related party transactions, etc.;
  - Risks, including Environmental, Social and Governance (ESG) risks;
  - Shareholder rights, their grievances, etc.;
- d) The Investment Manager shall comply with SEBI (Prohibition of Insider Trading) Regulations, 2015 while dealing with the investee companies.

Principle Number 04 and SEBI's Guidance:

***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***

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***institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.***

Fund's Policy on implementation of the above Principle:

- a) The Investment Manager shall identify the circumstances for active intervention in the investee companies and the manner of such intervention.
- b) The circumstances for intervention may, inter alia, include poor financial performance of the company, corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigation etc.
- c) The Investment Manager shall consider intervention in the affairs of the investee companies even when a passive investment policy is followed or if the volume of investment is low, if the circumstances so demand.
- d) The mechanisms for intervention may include meetings/discussions with the management for constructive resolution of the issue and in case of escalation thereof, meetings with the boards, collaboration with other investors, voting against decisions, etc.
- e) The Investment Manager shall identify and disclose various levels of intervention and circumstances in which escalation is required. This may also include interaction with the companies through institutional investor associations (E.g., AMFI).
- f) The Investment Manager will also form a committee to consider which mechanism to be opted, escalation of matters, etc. in specific cases.
- g) The Investment Manager shall undertake regular assessment of the outcomes of such intervention.

*The Investment Manager will follow the following escalation matrix:*

- ***Communication*** – The Investment Manager will communicate with the investee company's management teams to resolve any concerns and steps required to be undertaken to mitigate any potential concerns.
- ***Engagement*** – In case of failure on part of the investee company to undertake constructive resolution steps, the Investment Manager will engage with such investee companies on a timely basis.
- ***Collaboration*** – If deemed necessary, the Investment Manager will consider collaborating with other institutional investors, professional associations, or any other entities to make a collective engagement or joint representation with the investee company.
- ***Escalation*** – In case of failure on part of the investee company to adhere to the concerns raised, the Investment Manager will escalate the same to the Board of Directors of the respective investee company through a formal written communication elaborating on the concerns in question. The Investment Manager may also discuss the issues at the General Body meeting of the investee company. The Investment Manager may vote against the decision at appropriate forum.

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

Fund's Policy on implementation of the above Principle:

- a) The Investment Manager shall always vote in the best long-term interests of the Fund's beneficiaries and to improve governance of the investee companies after in depth analysis rather than blindly supporting the management decisions.
- b) The Investment Manager shall identify the following:
  - details of mechanisms of voting,
  - circumstances in which voting should be for/against/abstain, disclosure of voting, etc.;
- c) The voting policy, voting decisions (including rationale for decision), use of proxy voting/voting advisory services, etc. shall be publicly disclosed by the Investment Manager on its website <https://valuequest.in/>. By virtue of the Voting Policy, the Investment Manager shall undertake the following:

➤ ***Assessment of Proposals and Decision Making:***

- Investment Manager will generally vote with the management of the Investee Companies on routine matters. However, when the Investment Manager believes that the long-term interest of an Investee Company's shareholders, and hence of the Fund's beneficiaries, will be negatively impacted by any proposal, then the Investment Manager may vote against such proposal.
- The Investment Manager shall review the different proposals put before the shareholders and arrive at a final decision of how to vote, keeping in mind the long-term interests of the Fund's beneficiaries.

➤ ***Voting Mechanism:***

- The voting decision shall be communicated via online (e-voting), in person, or through representatives (including the Fund's Custodians) appointed to attend and vote at the Investee Company's meeting.
- In case there is a critical shareholder proposal which merits a high level of importance, the Investment Manager shall attend the meeting in person, thus helping to engender further discussion and debate.

➤ ***Oversight Committee for Escalation Mechanism:***

In case of grievances arising from voting and related activities / related escalations, if any, such grievances / escalations shall be handled by the Investment Committee.

➤ ***Disclosure of Voting Details (periodicity of disclosure, actual voting details, voting rationale, manner of disclosure):***

The Investment Manager shall share a report of its voting to the Fund's beneficiaries once a year. However, such details should always be available on request. This shall include the actual exercise of votes in the Annual General Meetings / Extra-ordinary General Meetings of the Investee Companies in the following matters:

- Corporate governance including changes in the state of incorporation, merger and other corporate restructuring, and anti-takeover provisions;
- Changes to capital structure including increases and decreases of capital and preferred stock issuances;
- Stock option plans and other management compensation issues;
- Social and corporate responsibility issues;
- Appointment and Removal of Directors;
- Any other issue that may affect the interest of minority shareholders in general and interest of the beneficiaries in particular.

➤ ***Use of Proxy Voting or Other Voting Advisory Services:***

The Investment Manager does not expect to use voting advisory services, but in case it does, it shall appropriately disclose the scope and extent of such services. Further, the Investment Manager does not contemplate to constitute an Advisory Committee.

Principle Number o6 and SEBI's Guidance:

***Institutional investors shall report periodically on their stewardship activities.***

Fund's Policy on implementation of the above Principle:

- a) The Stewardship Policy shall be disclosed publicly on the Investment Manager's website <https://valuequest.in/>. Further, the Stewardship Policy will be reviewed and updated periodically by the Investment Manager, with disclosure to investors as and when the document is updated.
- b) Furthermore, a report of the stewardship activities shall be prepared and shared once a year with the Fund's beneficiaries.

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## **Annexure:**

Potential conflicts of interests include:

### **1. Investee Company and Investment Manager, or its employees, may have a relationship.**

- The Fund may invest in Investee Companies in which the Investment Manager or any of its employees may have an existing investment or other interests (including providing debt), which may be on the same terms as the Fund's investment or on different terms.
- The Investment Manager or any of its employees may have any relationship (financial, business or personal) with the Investee Company.
- The Investee Company may be a group company of the Investment Manager (currently the Investment Manager has no group companies).
- The Investee Company may have investments in the Fund.

### **2. Purchase from and sale of investments to Investment Manager**

- The Fund may purchase investments from, or sell investments to, the Investment Manager. In such cases, conflicts may arise in determining the price and terms of the sale or purchase as the case may be.
- The Investment Manager and their personnel may have information about the Fund's investment objectives and strategy that would assist the Interested Parties wishing to purchase from or sell investments to the Fund.

### **3. Management Resources**

- The Investment Manager and its employees will only devote so much of their time to the Fund's operations as is, in their judgment, reasonably required.
- The Investment Manager and their employees that provide services to the Fund will have, in addition to their responsibilities for the Fund, responsibilities for other funds managed by the Investment Manager. Accordingly, allocating management time and other resources among such other funds may create conflicts.

### **4. Allocation of Investments**

- The Investment Manager will be subject to conflicts of interest in allocating investment opportunities, one or more of which may be suitable for the Fund, one or more of their other funds or co-investments or for direct investment by themselves.

### **5. Co-investment Opportunities**

- The Investment Manager may in its sole discretion offer other parties, including other investors in the Fund, and their Affiliates, opportunities to co-invest alongside the Fund in particular investments.
- The terms on which co-investors participate in investments alongside the Fund may be the same as the terms on which the Fund participates in those investments or they may be on different terms.
- Subject to the AIF Regulations, the Investment Manager will not provide co-investment opportunities to the co-investors on terms more beneficial than those offered to the Fund.

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- The Investment Manager and/or its Affiliates may receive fees or other compensation from co-investors in relation to their co-investments alongside the Fund, and they will not be required to remit these fees or other compensation to the Fund.
- These co-investment arrangements may lead to conflicts of interest.
- For example, the Investment Manager may have an interest in structuring any co-investments so as to maximize fees paid to the Investment Manager, and the investment team may have an interest in reducing the Fund's share of particular transactions so as to create co-investment opportunities.

## **6. Other Fees**

- The Investment Manager or other Interested Parties may receive transaction fees, advisory fees, monitoring fees, underwriting fees, deal-sourcing fees, break-up fees and/or director's fees from other Persons which may or may not be attributable to the Portfolio Investments of the Fund and to the extent such fees are not attributable to the Portfolio Investments of the Fund, they may be retained by the Investment Manager or the Interested Party.

## **7. Representation**

- The attorneys, accountants, and other professionals, who perform services for the Fund may, and in some cases do, also perform services for the Investment Manager.

## **8. Diverse Investors**

- Investors may have conflicting investment, tax and other interests with respect to their purchase of the Units.
- The conflicting interests of individual investors may relate to or arise from, among other things, the nature of the Portfolio Investments made by the Fund, the structuring or the acquisition of the Portfolio Investments and the timing of the disposition of such Portfolio Investments.
- As a consequence, conflicts of interest may arise in connection with decisions made by the Investment Manager, including with respect to the nature or structuring of investments that may be more beneficial for certain investors in comparison to the others, especially with respect to the individual tax situations of investors.
- In selecting and structuring investments appropriate for the Fund, the Investment Manager will consider the investment and tax objectives of the Fund and the investors as a whole, and not the investment, tax or other objectives of any individual investors.

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