

**CARNELIAN ASSET ADVISORS PRIVATE LIMITED
("CARNELIAN")**

**STEWARDSHIP CODE
(With effect from September 15, 2020)**

Version 3

INTRODUCTION & PURPOSE

Carnelian Asset Advisors Private Limited (“Carnelian”, “Company”) (Erstwhile Carnelian Asset Advisor LLP) is the Investment Manager to the following Alternative Investment Funds (AIF), of Carnelian Alternative Investment trust, registered with SEBI. **Carnelian Asset Management LLP** was the Investment Manager to the below mentioned fund -1 till September 2020 prior to Carnelian.

| Fund/Scheme Name | Type | Inception date | SEBI Reg. No. |
|---------------------------------------|-------------------|-----------------------|----------------------|
| Carnelian Capital Compounder Fund – 1 | Category III Fund | 31-05-2019 | IN/AIF3/18-19/0642 |

The purpose of the Stewardship Code is to protect the interest of the unitholders who have invested in the scheme/s of Carnelian’s Alternative Investment Funds and its schemes. Stewardship responsibilities includes 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 & Governance (ESG) opportunities or risks, capital structure and other related issues. The policy has been framed to discharge Stewardship responsibilities in accordance with the guidelines issued by SEBI vide circular CIR/CFD/CMD1/168/2019 dated December 24, 2019 and has to be read in conjunction with other important policies of the company. This code will be applicable to investments in listed equities by all above funds. This policy has been approved by Board of Carnelian and shall be effective from the date given above. Any major revision thereof shall also be approved by Board as and when required.

The primary objective of the Code is to enhance the quality of engagement between institutional investors and the investee companies to help improve the Corporate Governance practices with a view to enhance long term returns to the unit-holders.

This Policy shall apply to portfolio companies wherein equity investment made by any of the Funds managed by Carnelian exceeds 5% of the total paid up capital of such portfolio company.

Principle 1: Formulation of a comprehensive policy on the discharge of steward shipresponsibilities, publicly disclose it, review and update it periodically

a) Primary stewardship responsibilities:

The primary stewardship responsibilities of Carnelian shall be as follows:

1. 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.
2. To vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
3. To maintain transparency in reporting its voting decisions and other forms of engagement with investee companies

b) Discharge of stewardship responsibilities:

The Company shall fulfill its stewardship responsibilities by way of below activities:

1. The Company shall continue to follow the voting policy formulated and any modifications/amendments thereto (“**Voting Policy**”) to deal with the exercise of the Company’s voting rights in investee companies.
2. The Company shall appropriately monitor and engage on an issue which may potentially, affect an investee company’s ability to deliver long term sustainable performance and value for investments exceeding the Threshold.

3. The Company shall endeavour to work collectively with other institutional investors and support collaborative engagements organized by representative bodies and others for investments exceeding the Threshold.
4. The Company shall disclose compliance to the Policy and the principles therein on its website on a quarterly basis.

c) Oversight of the Stewardship activities:

The Investment Committee shall ensure that there is an effective oversight of the Company's all stewardship activities. The Investment Committee shall be responsible for the overall implementation and execution of this Policy. The Investment Committee is also entrusted with the power to engage or use the services of any external service providers to support the Investment Committee or Investment team in discharging its stewardship responsibilities. Board of Director shall be reviewing the policy on annual basis or need to review basis.

d) Disclosure of this Policy:

This Policy and amendment thereto, shall be published on the website of Carnelian.

e) Training of employees for effective implementation of the Policy

Carnelian shall have concurrent training and updates for its employees involved in implementation of the principles stated herein and shall educate these employees on the contents of the Policy.

Principle 2: Conflicts of interest management policy

a) Primary stewardship responsibilities:

Carnelian acts as an independent and uninfluenced provider of services and gives highest priority to protect and safeguard interests of its investors. Conflicts of interest are an inherent risk in our business and Carnelian's, therefore, has procedures and policies in place so that clients are treated fairly and material conflicts of interest are either avoided or are managed to avoid damage to a client's interests.

A conflict arises where the interests of Carnelian, or a director, or any Staff, or any vendor / service provider or another client are not or might not be aligned with the interests of a client.

While dealing with investee companies, Carnelian may be faced with a conflict of interest, which may include instances like, where the investee company is a group entity of Carnelian or has substantial investments in the schemes of the fund. There may be a potential conflict in instances where the Carnelian deals with its group entities, or when the concerned investment team member hold stocks of investee companies while dealing with such companies on behalf of Carnelian. There could be instances where any Key Management personnel of the Investee Company is availing the Investment advisory or Portfolio Management services of Carnelian. The voting for investee companies by Carnelian may, in some cases, have a potential conflict with the interest of clients.

b) Discharge of stewardship responsibilities:

These are indicative list of some of the control measures established by Carnelian and are not an exhaustive list for discharging above responsibility.

- i. Carnelian's policies require that all personal interests, relationships or arrangements, including those of our group companies must be disregarded to ensure that the best interests of all clients are served.
- ii. Appropriate disclosure is made in the Private Placement Memorandum of schemes of Carnelian.
- iii. All Carnelian directors and employees are subject to Code for Prohibition of Insider Trading Policy applicable to them (CPIT).
- iv. Employees who are either involved in the investment decision making for clients or have information on client's transactions or who have access to research etc. cannot use such information (for themselves or other persons connected with them or over whom they have influence) to acquire

- financial benefits.
- v. During the course of business activities in connection with the making, monitoring and realisation of investments held in AIF scheme(s) / Portfolios, there may be occasions when employees become aware of unpublished price sensitive information concerning listed securities. The Restricted Stock List within above (CPIT) Policy of the Carnelian requires them follow procedure as mentioned therein.
 - vi. The giving or receiving by employees of undue gifts, hospitality or other benefits may constitute a material inducement to act to the advantage of one or more clients /cause conflict of interest. Any Such undue Gifts and inducements are therefore restricted to be given to them.
 - vii. Carnelian has established a Voting Policy for AIF investments. The proxy voting process, if any is managed and co-ordinated by the Investment team of Carnelian and there is clear segregation with the sales function / client relations.
 - viii. The policy shall allow persons to rescue from decision making in case of the person having any actual / potential conflict of interest in the transaction.

The Carnelian shall always endeavour to ensure that the interest of the client is placed before the interest of the entity and conflict of interest, wherever observed, are mitigated / resolved in the best interest of the clients and in accordance with the policy.

The dealings with the investee companies which could be a group entity of Carnelian shall be carried out at arms-length basis and shall be subject to applicable laws and regulations. Further, as a principle, Carnelian shall exercise its voting power in the best interest of clients.

c) Oversight of the Stewardship activities:

The above highlighted instances are indicative in nature and Carnelian would continue to monitor such potential circumstances which may lead to a conflict of interest. Potential new conflicts of interest, wherever observed are raised and discussed promptly with senior management and in case of significant issues gets escalated to Investment Committee. The decisions of the Investment Committee are documented and maintained by Carnelian.

Principle 3: Monitoring investee companies.

a) Primary stewardship responsibilities:

Carnelian should a system on continuous monitoring of their investee companies in respect of all aspects they consider important which shall include performance of the companies, corporate governance, strategy, risks etc. Carnelian shall identify the levels of monitoring for different investee companies, areas for monitoring, mechanism for monitoring etc. Carnelian may also specifically identify situations where they do not wish to be actively involved with the investee companies e.g. in case of small investments.

b) Discharge of stewardship responsibilities:

1. Carnelian shall monitor the investee companies falling within the scope of the Threshold. Present threshold limit set is 10% of the AUM of the Fund.
2. The investment & research teams of various verticals and managing shall supervise and monitor investee companies in respect of important aspects which are listed below:
 - a) Company strategy and performance - operational, financial etc.
 - b) Industry-level monitoring and possible impact on the investee companies.
 - c) Quality of company management, board, leadership etc.
 - d) Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
 - e) Risks, including Environmental, Social and Governance (ESG) risks
 - f) Shareholder rights, their grievances etc.
3. While dealing with the investee company, we make companies aware of our position to ensure that we do

not inadvertently receive non-public price sensitive information. However, in case of receipt of non-public sensitive information or unpublished price sensitive information, we shall follow process specified in Prohibition of Insider Trading Policy.

4. Applicability of insider trading regulations: The Company shall comply with the provisions under the SEBI (Prohibition of Insider Trading) Regulations, 2015 and shall also include in the “restricted list”, all stocks in which investment is made/to be made.

c) Oversight of the Stewardship activities:

The Investment Committee shall review the monitoring and engagement activities being carried out on an annual basis and propose changes, if required.

Principle 4: Intervention and collaboration with investee companies

a) Primary stewardship responsibilities:

Carnelian should have a clear policy identifying the circumstances for active intervention in the investee companies and the manner of such intervention. Carnelian should also involve regular assessment of the outcomes of such intervention. Intervention can be considered even when a passive investment policy is followed or if the volume of investment is low, if the circumstances so demand. Circumstances for intervention by Carnelian may, inter alia, include poor financial performance of the company, corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigation etc.

b) Discharge of stewardship responsibilities:

For any investments which are significantly above the Threshold, the Carnelian may 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 disclosure, inequitable treatment of shareholders, non-compliance with regulations, performance parameters, governance issues, related party transactions, corporate plans / strategy or any other related matters. In such cases, the Investment committee may deem it necessary to escalate the engagement on particular issue. The aspects of the intervention will be determined on a case to case basis by the Investment team and referred to the Investment Committee for advice and guidance.

The Carnelian may also consider intervening in matters below the Threshold, if in the opinion of the Investment Committee, the issue involved may adversely impact the overall corporate governance or the investment made by the Fund.

The mechanism followed by the Company for intervention shall include:

1. **Communication & engagement:** The Company, on behalf of the Funds, shall communicate and engage with the investee company’s management about any concerns of the Company including steps to be taken to mitigate such concerns. If the matter comes to voting, the Company shall exercise its voting rights.
2. **Collaboration:** The Company shall endeavor to engage with other funds while undertaking any voting and also consider collaboration with other institutional investors, professional associations, regulators, and any other entities where it deems necessary. The act of collaboration with other institutional investors shall not be deemed to be an act of collusion or persons acting in concert.
3. **Escalation:** In case there is no progress despite the first two steps, the Company shall escalate the matter to the Investment Committee. If the Investment Committee decides to escalate, the Company shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. The Company may also consider discussing the issues at the general meeting of the investee company.
4. **Collective Action:** In deciding whether or not to act collectively with other investors, Carnelian shall take into account a range of factors. In particular, these include:
 - Whether or not collective engagement is likely to be more effective than unilateral engagement
 - The degree to which the objectives of the other investors are aligned to our own

- The need for confidentiality
- The context of the investee company and, exceptionally, the wider economy.

5. **Reporting to the Regulators:** If there is no response or action taken by the investee company despite the above-mentioned steps, Carnelian may approach the relevant authorities / regulators or may consider recourse to other legal actions

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

c) Oversight of the Stewardship activities:

The Investment Committee shall review the intervention and collaboration activities being carried out on an annual basis and propose changes, if required.

Principle 5: Voting and disclosure of voting activity along with a clear policy on voting and disclosure of voting activity.

a) Primary stewardship responsibilities:

To protect and enhance wealth of the clients/ beneficiaries and to improve governance of the investee companies, it is critical that the Carnelian take their own voting decisions in the investee company after in-depth analysis rather than blindly supporting the management decisions.

b) Discharge of stewardship responsibilities:

For this Carnelian, a comprehensive voting policy including details of mechanisms of voting, circumstances in which voting should be for/against/abstain, disclosure of voting, etc. The voting policy, voting decisions (including rationale for decision), use of proxy voting/voting advisory services, etc. shall be publicly disclosed.

c) Oversight of the Stewardship activities:

The Investment Committee shall review the voting & disclosure activities being carried out on an annual basis and propose changes, if required.

Principle 6: Reporting requirements

a) Primary stewardship responsibilities:

Carnelian shall report to their clients/ beneficiaries periodically on how they have fulfilled their stewardship responsibilities. However, it may be noted that the compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision of the institutional investor to sell a holding when it is in the best interest of clients or beneficiaries.

b) Discharge of stewardship responsibilities:

1. Carnelian shall update the investor in its monthly newsletter or through a separate emails about
 - voting activity undertaken.
 - Any major deviation found in its monitoring & engagement with Investee company.
2. The Carnelian will publicly disclose the Voting Policy on its website.

c) Oversight of the Stewardship activities:

The Investment Committee shall review the reporting requirements being carried out on an annual basis and propose changes, if required. Carnelian also notes that the compliance with the Stewardship Code does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding when it is in the best interest of unitholders.