

STEWARDSHIP POLICY

1. PREAMBLE

- 1.1 Stewardship Policy ("**Policy**") of MCB Investment Management Limited (formerly MCB-Arif Habib Savings and Investments Limited) ("**MCBIM**" or the "**Company**") is prepared in accordance with the requirements of Schedule XXI of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (amended or replaced) and Stewardship Guidelines for Institutional Investors ("Stewardship Guidelines") issued by the Securities and Exchange Commission of Pakistan.
- 1.2 The Board of Directors (BOD) of the Company shall have an overall responsibility for implementation of this Policy.
- 1.3 In case of any position given in this Policy becoming vacant, authorities associated with the relevant position shall automatically escalate to the next higher authority in line; unless a temporary authority has been granted and authorized by the CEO of the Company in this respect.
- 1.4 The basic responsibility for maintaining and updating this Policy resides with Chief Investment Officer. Chief Investment Officer shall initiate, Investment Committee and Investment Advisory Committee shall validate and the BOD shall approve any modifications to this Policy.
- 1.5 In this Policy, the word "**Schemes**" includes all Collective Investments Schemes and Voluntary Pension Schemes managed by the Company. The word "**Customers**" includes Unit Holders/ Participants of the Schemes and Clients of Discretionary Portfolios managed by the Company.

2. OBJECTIVE OF THE STEWARDSHIP POLICY

- 2.1 The objective of the Stewardship Policy is to protect the interest of the Customers and Shareholders of the Company by way of keeping abreast of the performance of the investee companies, as laid down in this Policy, which will result in informed decisions by the fund managers and ultimately improve the return on investments of the Schemes and Discretionary Portfolios managed by the Company.

3. INVESTMENT PHILOSOPHY OF MCBIM

- 3.1 MCBIM believes in a strong fundamental top down investment philosophy where research on the investee companies forms the core of investment process. MCBIM always endeavor to discharge its fiduciary responsibilities and strives to keep interest of the Customers and Shareholders above all. MCBIM has a process of effective communication with the management of investee companies through general meetings, corporate briefings, plant visits, business center visits, interaction with trade associations and individual management meetings.
- 3.2 As a responsible listed non-banking financial institution, MCBIM will continue to enhance its capacities to discharge stewardship responsibilities.

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4. STEWARDSHIP RESPONSIBILITIES

- 4.1 The investment portfolios of the Schemes are being managed by the Fund Management Department with the approval of Investment Committee of the Company. While the investment portfolios of the Discretionary Clients are being managed by the Investment Advisory Department with the approval of Investment Advisory Committee of the Company. Therefore, Fund Managers and members of the Investment Committee and Investment Advisory Committee will be responsible to carry out all stewardship responsibilities mentioned in this Policy and to provide the required disclosures pertaining to stewardship activities.
- 4.2 Fund Managers and Members of the Investment Committee/ Investment Advisory Committee of the Company shall play an active role in monitoring and engaging the investee companies on matters not only related to financial performance (capital structure, earnings growth, business strategy, etc.) but also put emphasis on corporate governance, environmental sustainability and organizational culture.
- 4.3 Fund Managers and Members of the Investment Committee/ Investment Advisory Committee of the Company will ensure enhanced monitoring and engagement with the investee companies, through active participation in general meetings, corporate briefings and meetings with management of the investee companies.

5. MCBIM APPROACH TOWARDS STEWARDSHIP PRINCIPLES

- 5.1 The Investment Committee and the Investment Advisory Committee of the Company shall decide threshold exposure limit for the investee companies to discharge their stewardship responsibilities, beyond which stewardship principles will have a meaningful impact on the investee company. This threshold exposure limit will determine the level of engagement and intervention with the investee company. The Investment Committee and Investment Advisory Committee may change threshold exposure limit from time to time, if they consider necessary.
- 5.2 Both Investment Committee and Investment Advisory Committee currently set threshold exposure limit at seven per cent (**7%**) of total AUM of the Company. Through following its traditional investment philosophy, MCBIM will continue to monitor, engage and intervene in selected investee companies with lower exposure as well. To set a reasonable threshold exposure limit is necessary, which has a meaningful weight in the portfolio and a reasonably significant stakeholder for the investee company.
- 5.3 **VOTING POLICY AND ITS DISCLOSURE**

MCBIM has formulated a separate voting policy with the title of **“Proxy Voting Policy and Procedures”**. This Policy has been approved by the Board of Directors of the Company and is publicly available on the website of the Company. All required contents of Schedule XXI of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (amended or replaced) are covered in the Proxy Voting Policy and Procedures.

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5.4 MONITORING THE INVESTEE COMPANIES

(a) THE MONITORING PROCESS

- (i) Research Department of the Company, under supervision of Head of Equities or Head of Investment Advisory or Chief Investment Officer shall be responsible for monitoring the investee companies. In addition to fundamental factors that form the building block of financial analysis like capital structure, business strategy, pricing/cost outlook, macroeconomic framework but also take account of non-financial factors like Code of Corporate Governance, ESG issues, leadership quality and organizational culture.
- (ii) Research Analysts shall rely on the information available in public domain including financial statements, news reports, industry related publications and sell side research. In addition, Research Analysts may engage with the investee companies at least once a year through corporate briefings, general meetings and management meetings, wherever possible.
- (iii) Materiality will remain the core of the extent of the monitoring process. However, as an integral part of investment philosophy of the Company, Research Analysts monitor all investee companies. However, for the purpose of this Policy, Research Analysts will monitor investee companies having exposure threshold limit as defined earlier in this Policy. In case of investee companies having exposure equal to or below threshold limit, Research Analysts shall continue to follow the broad principles laid down in this framework, where possible.
- (iv) Research Analysts shall strictly follow statutory requirements restricting insider information while discharging their duties in monitoring the investee companies.

(b) THE NEED FOR INTERVENTION

MCBIM may feel the need to intervene if the Research Analyst finds any concern related to non-compliance on corporate governance, insufficient disclosures, business strategy, ESG risks, leadership issues or any litigation.

(c) THE INTERVENTION PROCESS

- (i) Research Analysts will report their concerns (relating to the investee company) to the Investment Committee or Investment Advisory Committee as the case may be, which will decide the appropriate forum (general meeting, corporate briefing, etc.) to raise the matter to the Investee Company.
- (ii) In such case, any staff of the Fund Management and Investment Advisory Department may raise concern to the investee company, either in a general meeting, a corporate briefing or directly contacting the management of the investee company.

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- (iii) Such interactions, being highly confidential in nature, may affect the value of investments and thereby Customers detrimentally, would not be disclosed.

5.5 ENGAGEMENT WITH THE INVESTEE COMPANIES

Engagement is a meaningful dialogue with the investee companies to protect the interest of the Customers. It is an extension of the Monitoring Process as explained above and arises when the Company has complete understanding of a specific issue in the investee company. It may include dialogue on matters such as strategy, long term performance, capital structure, ESG issues or matter that are immediate subject to votes at a general meeting. The Company will follow the same steps as mentioned in Sub-Paragraph No. 5.4(c) for engagement with the investee companies.

5.6 IDENTIFYING AND MANAGING CONFLICT OF INTEREST

- (a) The term “conflict of interest” refers to instances where personal or financial considerations may compromise or have the potential to compromise the judgment and execution of professional duties. The policy will aim to identify, understand and minimize such conflicts in a transparent manner.

- (b) **Identifying conflict of interest**

The conflict of interest may arise if:

- (i) the investee company is a group or associated company of MCBIM;
- (ii) the investee company is a client of MCBIM;
- (iii) Member of the Investment Committee or Investment Advisory Committee has personal investments in the investee company.

The above scenarios may not include all the possible scenarios for conflict of interest. In case of any doubt, the matter would be referred to the Compliance Department for clarification.

- (c) **Managing conflict of interest**

Investment Committee/ Investment Advisory Committee of the Company will develop procedures to manage conflict of interest arising from any event that may include but not limited to the following:

- (i) The Company, on behalf of the Schemes, will not invest in the unlisted equity securities.
- (ii) Proxy issuance and voting will be done in accordance with the requirements of approved Proxy Voting Policy and Procedures.
- (iii) The Company has already created Chinese wall between Fund Management and Investment Advisory Departments to avoid any potential or actual conflict of interest between the Schemes and Discretionary Portfolios. The Company has established separate committees for this purpose i.e. Investment Committee for the Schemes and Investment Advisory Committee for Discretionary Portfolios.

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5.7 INCORPORATING SUSTAINABILITY CONSIDERATIONS

MCBIM will focus on sustainability considerations, including ESG, in its investment analysis and activities. MCBIM shall try to integrate stewardship and material ESG issues with the interest of the Customers. For this purpose, MCBIM will rely on any publicly available information with focus on:

- (a) Environmental and Social impact, which may include carbon footprint, water usability, waste management, impact of industry/company on the societies in the plant/business vicinity and effectiveness of corporate social responsibilities.
- (b) Gender diversity and inclusion:
MCBIM prides itself as an equal opportunity employer and encourages gender diversity and inclusion of women and minorities in the workforce. The Company provides facilities like daycare/ childcare on the premises to encourage its female workforce. Being a proponent of gender diversity and inclusion, MCBIM will look for the same in the investee companies and encourage them if need be through effective monitoring and engagement.
- (c) Employee care:
Employee care may include safe working environment, safeguards against work place harassment or bullying and healthy employee relations.
- (d) Governance:
Governance includes adherence to Code of Corporate Governance, adequate board composition and consideration for minority shareholders.

Research Analysts and members of the Investment Committee/ Investment Advisory Committee look to incorporate ESG principles into their investment process where overall investment objectives of the Scheme/ Discretionary Portfolio as mentioned in its Constitutive Document/ Discretionary Portfolio Management Agreement allow. For instance, ESG standards may discourage Investment Committee/ Investment Advisory Committee to consider coal power plants for investment, however, Investment Committee/ Investment Advisory Committee cannot disregard them, given their importance for country's energy security and returns prospects for the Customers. Investment Committee/ Investment Advisory Committee nonetheless continues to look positively for ESG factors in investee companies.

6. DISCLOSURE AND REPORTING

This Policy shall be uploaded on the website(s) of the Company after approval from the Board of Directors of the Company.

By July 31st of every financial year, Fund Management Department of the Company shall compile "**Stewardship Report**" on how the Company has fulfilled its stewardship responsibilities in the preceding financial year as per the Policy, in an easy understandable format and shall also upload Stewardship Report on its website(s).

Stewardship Report shall be a single document structured to give a clear picture of how the Company has applied the stewardship principles mentioned in the Stewardship Guidelines for Institutional Investors and this Policy.