

STEWARDSHIP CODE

I. INTRODUCTION:

A. BACKGROUND:

The Securities and Exchange Board of India (“SEBI”) vide its circular number CIR/CFD/CMD1/ 168 /2019 dated December 24, 2019 read with Clause 13.4 of the Master circular number SEBI/HO/AFD-1/AFD-1-PoD/P/CIR/2024/39 dated May 07, 2024 (collectively referred to as “SEBI Circulars”), prescribed stewardship principles to be adopted and implemented by the Alternative Investment Funds (“AIFs”) in relation to their investment in listed equities of the investee companies to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

The First Light Capital Advisors LLP, an LLP incorporated under the Limited Liability Partnership Act, 2008 with Identity number AAF-6213 is the Investment Manager (“Investment Manager”) to First Light Opportunities Fund (“Scheme”), a scheme of the Azure First Light Alternative Investment Fund (“Fund”), a SEBI registered Category II-AIF having registration number IN/AIF2/16-17/0249. The Scheme invests in listed equities in accordance with its investment objective and SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”).

Accordingly, this Stewardship Code (“Code”) is formulated to ensure adherence with the SEBI Circulars and to set out the framework and guidelines for discharge of its stewardship responsibilities as an Investment Manager to the Fund.

B. PURPOSE:

The Code enumerates the processes that the Investment Manager intends to follow in order to safeguard the interests of the investors of the Fund while managing the investments of the Fund in listed equities.

The purpose of the Code is to enhance the quality of engagement between institutional investors and the investee companies as a step towards improved corporate governance practices with a view to enhance long term returns to investors and the governance responsibilities.

C. APPLICABILITY:

The Code applies to Investment Manager and the AIFs managed by the Investment Manager towards the AIF’s investment in listed equities of the investee companies.

The Code shall be effective from the date of first closing of the Scheme.

II. KEY PRINCIPLES TO BE FOLLOWED:

Towards fulfilment of stewardship responsibilities, Investment Manager shall abide by this Code and shall be guided by the following principles:

1. Principle 1: Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.

a. Primary Stewardship Responsibilities:

The primary Stewardship responsibilities of Investment Manager shall be:

- i. Monitoring and actively engaging with investee companies on various matters including operational and financial performance, short, mid and long-term business strategy, corporate governance (especially board structure, constitution and directors' remuneration), material environmental, social and governance ("ESG") opportunities or risks, capital structure.
- ii. To monitor each investee company based on internal classification for assigning priority to investee companies on the basis of various parameters including their size.
- iii. To enhance investor value through productive engagement with investee companies.
- iv. To vote and engage with investee companies in a manner consistent with the best interests of its investors.
- v. To maintain transparency in reporting its voting decisions and other forms of engagement with investee companies.
- vi. To be accountable to investors within the parameters of professional confidentiality and regulatory regime.

b. Discharge of Stewardship Responsibilities:

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

- i. Emphasizing on publicly available data as primary source and fact-based interaction with the investee company as and when needed while not seeking any subjective opinions.
- ii. Value creation for investors through regular monitoring and meeting with management, board or relevant personnel of the investee company to identify and deliberate on any issue which may potentially, affect an investee company's ability to deliver long term sustainable performance.

- iii. Voting on board or shareholders resolutions of the investee company as per the voting policy adopted by the Investment Manager with a view to protect and enhance the investor's interests.
- iv. Advocating for responsible corporate governance practices, as a driver of value creation.
- v. Regular monitoring and intervening, wherever necessary, on ESG opportunities or risks in the investee companies.
- vi. Primary intimation of material matters identified/expected to be done through emails and letters.
- vii. Expressing opinion as a responsible investor and engage in discussions with investee companies to create corporate value, resulting in benefits for both the investors and the investee companies.
- viii. Endeavor to work collectively with other institutional investors and support collaborative engagements organized by representative bodies.
- ix. The Investment Manager may avail of external services for professional advice in seeking to implement its stewardship responsibilities. These external services may be utilized by Investment Manager with a view to enable it to take informed decisions which would benefit all the relevant beneficiaries. The said cost may be appropriated to the Fund. The role of the service providers shall not be beyond providing company research reports, data and tools to assist Investment Manager with reporting and ensuring regulatory compliance. For such external services, Investment Manager shall ensure that scope is clearly laid down and upon Investment Manager's review, ensure that the services are supplied to it in a proper and diligent manner. Notwithstanding this clause, the ultimate stewardship responsibilities shall be discharged by the Investment Manager.

c. Oversight of the Stewardship activities:

The Designated Partners, CEO and CIO of the Investment Manager shall ensure that there is an effective oversight of the Investment Manager's stewardship responsibilities. The Investment Manager shall be responsible for the overall implementation and execution of this Code.

d. Disclosure of Code:

This Code and any amendment thereto, shall be disclosed on the website of the Investment Manager.

e. Training:

The Investment Manager may provide appropriate training events and courses at regular intervals to the employee involved in discharging stewardship responsibilities, as may be required.

2. 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.

The Investment Manager has adopted a distinct *conflict management policy* for prevention and management of potential conflicts of interest and the Investment Manger shall abide by the principles of conflicts of interest set out therein.

3. Principle 3: Institutional investors should monitor their investee companies.

- a. The Investment Manager is responsible for monitoring performance of the each investee company.
- b. Areas of monitoring include:
 - i. Investee companies business strategy and performance (operational, financial, capital allocation decisions like capacity expansions or mergers and acquisitions etc.);
 - ii. capital structure;
 - iii. quality of company management, board of directors, leadership etc. ;
 - iv. succession planning, if the same involves violation of the principles of corporate governance. The intervention in such an eventuality shall be confined to collaborating with other institutional shareholders and appropriate voting on proposed resolutions.
 - v. risks, including ESG risks;
 - vi. corporate governance parameters including board composition (with respect to independence and diversity), size and quality (with respect to leadership and credentials of the board members), director remuneration and related party transactions;
 - vii. instances of violation of shareholder rights and their grievances;
 - viii. any events concerning the investee companies, including but not limited to controversies, new launches, regulatory actions, employee layoffs, strikes etc.;
 - ix. industry level monitoring and possible impact on the investee companies.
- c. Once an investment is made, the Investment Manager continues to monitor each investee company. The Investment Manager uses an internal classification for assigning priority to investee companies on the basis of various parameters including the size of the investee company and the % of the share capital of the investee company held by the Fund in such investee company. Investee companies where has higher interest involves higher levels of monitoring as compared to companies where there is a lower interest.
- d. The monitoring will be based on publicly available information, tracking of covenants, analysis of financials, and annual asset review with investment committee, management meetings, sell side research and industry information.
- e. The Investment Manager will seek various data and information from public sources, as well as send occasional queries on need basis to company's management to get information about companies' finances, operations and

other aspects of decision making, however it will strategically stay away from getting influenced or biased by subjective opinions expressed by managements, various entities, and market players.

- f. While endeavor would be to ensure at least one interaction via call or meeting with the management of the investee companies in a year, there might be instances where the management of the investee company is not accessible or not accessible at appropriate levels or where Investment Manager believes that there is no incremental information to be obtained from the management. In such cases, monitoring could be through other external sources, on a best effort basis.
- g. The Investment Manager may engage external technical assistance or special auditors, if necessary, for the monitoring.
- h. The principles of conflict of interest are kept in mind by the Investment Manager, while engaging with the management of the investee company.
- i. The Investment Manager neither wishes to be made an insider in the investee companies nor wishes to be given price sensitive or business sensitive information which might have an impact on dealing with the shares of the companies.
- j. The Investment Manager shall ensure compliance with legal and regulatory requirements including market abuse, SEBI (Prohibition on Insider Trading) Regulations, 2015, as amended from time to time, while seeking information from investee companies (and any other source) for the purpose of monitoring.

4. 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.

The Investment Manager should always act in the best long-term interests of the Fund's investors. This would imply intervening in the Fund's investee companies when such interests are under threat as this is an important way to preserve value for Fund investors and in discharge of its stewardship responsibility.

a. Applicability:

The Investment Manager shall intervene in the acts/omissions of an investee company, in which the Fund has:

- i. invested Rs. 5 Crore or more; or
- ii. holds at least 10% of the share capital of the investee company.

b. Identifying possible circumstances of active intervention:

The Investment Manager shall 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:

- i. Poor financial performance of the investee company;
- ii. poor corporate governance practices;
- iii. excessive / unjustified Director/executive remuneration;
- iv. leadership issues;
- v. poor business strategy such as improper operation model, improper risk management, etc.;
- vi. prevailing ESG risks;
- vii. lawsuits/litigations;
- viii. insufficient disclosures;
- ix. related party transactions;
- x. non-compliance with applicable regulations;
- xi. significant change in promoter's shareholding;
- xii. inequitable treatment of shareholders;
- xiii. resignation of top executives of the company such as Chief Executive Officer, Chief Financial Officer, one or more independent directors and/or change in Internal/ Statutory Auditor during the year;
- xiv. any other important issue like any adverse remark/observation from internal auditors or statutory auditors / comptroller and auditor general of India or in reports from any regulator such as RBI/SEBI/PFRDA etc.

c. Intervention by the Investment Manager:

The decision for intervention shall be decided based on the following broad parameters:

- i. The Investment Manager shall not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment;
- ii. However, the Investment Manager may consider intervening in matters below the thresholds, if in the reasonable opinion of the Investment Manager, the issue involved may adversely impact the overall corporate governance atmosphere or the investment made by the Fund.

d. Mechanism of intervention and regular assessment of outcome of intervention:

The mechanism followed by Investment Manager for intervention shall include:

i. Step 1-Communication and Engagement:

In case of instances identified for intervention, the Investment Manager will endeavor to communicate and engage with the investee company's management about any concerns regarding an investee company's including steps to be taken to mitigate such concerns by sending letters to the management team investee company and/or one-to-one meetings

with the management team and/or engagement with specific teams etc. In case, where the concerned management of the investee company is not accessible for more than a reasonable period despite requests / reminder, then TCG may consider to escalate the matter as per the process laid under Step 3.

ii. Step 2-Re-Engagement:

If there is no response from the management of the investee company on the concerns raised or there is any lack of follow-up action or complete failure to undertake constructive steps as promised despite the passage of a reasonable period of time, the Investment Manager may re-engage with the management to reiterate the conclusions, or the plans of action decided at the prior meetings to resolve the concerns. A time bound plan to rectify or re-align the business practices or actions should be discussed and agreed upon.

iii. Step 3-Escalation:

In case there is no progress despite the above two steps, the matter shall be discussed at Investment Committee meeting for further escalation to the Board of Directors the investee company. The Investment Manager may engage with the Board of the investee company through a formal written communication and elaborate on the concerns.

iv. Step 4-Reporting to the Regulators:

If there is no response or action taken by the investee company despite the above steps, the Investment Manager may approach the relevant authorities.

v. Other intervention mechanisms:

The Investment Manager shall consider other intervention mechanisms such as given hereunder:

- Considering discussing the issues at the general meeting of the investee company;
- submitting shareholders resolution or voting against in case the governance practices of the investee company are improper or abstain from voting in case of non-availability of proper information from the investee companies;
- taking a legal recourse against a company if deemed necessary;
- consider extending a blanket ban on a section of companies or create a list of black-listed companies as required if there is no engagement or improvement from the companies' side. The Voting Committee may

review and place for removal of the name of such company, from the list of black-listed companies after a minimum period of one year, citing reasons in writing on the need to do so, and on specifically mentioning the corrective measures taken and results obtained therefrom by the investee company, on the same subject matter for which it was originally placed in the black-list;

- exit from the investment as a last resort.

The Investment Manager shall also undertake regular assessment of the outcomes of such intervention(s).

In case the intervention of Investment Manager 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 Manager, which may consider the outcome of the intervention as an input in its decision-making process.

e. Collaboration with other institutional investors:

- i. The Investment Manager shall consider collective engagement with other institutional investors on a general basis and in particular, when the Investment Manager believes a collective engagement will lead to a higher quality and/ or a better response from the investee company.
- ii. The Investment Manager may approach, or may be approached by, other Asset Managers, including insurers, mutual funds, or other type of shareholders to provide a joint representation to the investee companies to address specific concerns.
- iii. The Investment Manager shall also, where permitted, collaborate with other shareholders, institutional investor association, industry associations, forums, regulators such as SEBI, Association of Mutual Funds in India, Insurance Regulatory and Development Authority, Pension Fund Regulatory and Development Authority and other policy makers to solicit views.
- iv. Such collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value. An illustrative list of matters which require collaborative engagement may include appointment or removal of directors, executive remuneration, change in the nature of business, mergers and acquisitions, divestment, matters dealing with inequitable treatment of the shareholders, and related party transactions.
- v. The Investment Manager shall determine individually its position on any issue requiring collaborative engagement and shall not act or be construed as acting as a 'person acting in concert' with other shareholders.

- vi. When Investment Manager will have reasons to believe that collaborative action would be an effective means by which investors can exercise appropriate influence, the Investment Manager will willingly initiate action or support other investors' actions.
- vii. In taking collaborative action the Investment Manager would be cognizant of legal and regulatory requirements, including on market abuse, insider trading and other related regulations and / or internal policies.

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

While discharging this principle, the Investment Manager will follow the guidelines for voting on the resolutions of the investee company as per the voting policy formulated and amendment(s) made thereto, from time to time.

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

The Investment Manager will disclose the report on implementation of every stewardship principle as enumerated in the Code on its website on an annual basis, except the disclosure on voting undertaken, which will be reported separately as per the Voting Policy.

The report on implementation of every principle will also be sent as a part of part of annual intimation to the investors.

The Code is to be reviewed and updated on a periodic basis and at least once every year, or whenever any change(s) are to be incorporated in the Code due to change in applicable law regarding stewardship responsibilities, whichever occurs later. The updated Code will be disclosed by the Investment Manager on its website at www.firstlightcap.in.