POLICY ON CONTINOUS MONITORING OF INVESTEE COMPANIES AND STEWARDSHIP CODE

#INTRODUCTION AND BACKGROUND

Institutional investors across the world are expected to shoulder greater responsibility towards their clients/ beneficiaries, commonly referred to as 'Stewardship Responsibilities'. The Securities and Exchange Board of India ('SEBI'), along with the Insurance Regulatory and Development Authority of India ('IRDAI') and Pension Fund Regulatory and Development Authority ('PFRDA') had examined a proposal for introducing the stewardship principles in India, which was approved by a subcommittee of the Financial Stability and Development Council (FSD-SC). In this regard, SEBI vide Circular dated 24 December 2019 (the 'Circular') prescribed a 'Stewardship Code' which isrequired to be mandatorily followed by all categories of Alternative Investment Funds ('AIFs'), in relation to their investments.

The Stewardship Code comes into effect from the financial year beginning 1 April 2020. Rational Equity Partners LLP ("Investment Manager") is the Investment Manager of Rational Equity Flagship Fund I ("the Fund"), a Category III AIF under the Trust 'Rational Equity Trust'. The Investment Manager has a fiduciary duty to act in the bestinterests of the beneficiaries of the Fund. This responsibility includes, inter alia, the discharge of the stewardship responsibilities, as laid out in the policy document below.

DISCHARGE OF STEWARDSHIP RESPONSIBILITIES

Every institutional investor should formulate a comprehensive policy on how it intends to fulfil the stewardship responsibilities mentioned in the Circular and disclose it publicly. A training policy for personnel involved on implementation of the principles is crucial and may form a part of the policy.

This Stewardship Policy document will serve as the Investment Manager's policy to fulfil the stewardship responsibilities mentioned in the Circular. Further, this document will be reviewed and updated periodically by the Investment Manager, with public disclosure updated as and when the document is updated. As a part of the stewardship responsibilities, 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. These activities shall not be outsourced.

Furthermore, all employees of the Investment Manager shall be provided this document on joining, and on subsequent updates of the document. The Investment Manager shall review the Policy with all employees on induction and then annually to ensure that all aspects of the policy are understood by all the relevant personnel.

#MANAGING CONFLICT OF INTERESTS

Institutional investors should formulate a detailed policy for identifying and managing conflicts of interest, and should, inter-alia, address the following:

• Identifying possible situations where conflict of interest may arise
• Procedures put in place by the entity to mitigate the same
• Periodical review and update of such policy and public disclosure Policy

The Investment Manager shall always act in the best long-term interests of the Fund's beneficiaries. Specifically, it shall put the interests of the Fund's beneficiaries above its own interests while addressing any potential conflict. In order to check for potential conflict of interests, the Investment Manager and its employees shall disclose any conflicts in the form of a self-certified questionnaire.

The Investment Manager and all employees shall complete these disclosures when this policy is introduced, or at their joining, whichever is later. Moreover, 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 will be severely dealt with, including with termination of said employee.

Potential conflicts of interests include:

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

• The Fund may invest in 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 entity of the Investment Manager (currently the Investment Manager has no group entities).

• The Investee Company may have investments in the Fund.

In above cases, there could be a potential conflict between the interests of the Fund and those of the Investment Manager.

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 purchase or sale.

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 may have, in addition to their responsibilities for the Fund, responsibilities for other projects and clients.

• Accordingly, allocating management time and other resources among such other projects and clients 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. 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.

6. 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.

In case any potential conflict of interest has been identified, procedures to address them are the following:

• 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.

• If required, the Investment Manager may also consider setting up a 'Conflict of Interest' Committee with representation from the Fund's beneficiaries to deliberate in extreme situations.

• Wherever applicable, voting decisions at Investee Companies shall be segregated from the client relations or sales functions.

• The minutes of all meetings related to conflict-of-interest discussions shall be recorded for future review and follow-up

#MONITORING OF INVESTEE COMPANIES

Institutional investors should have a policy on continuous monitoring of their investee companies in respect of all aspects they consider important, specifying, inter-alia, the following:

• Different levels of monitoring in different investee companies

• Areas of monitoring

• Identification of situations which may trigger communication of insider information and procedures adopted to ensure insider trading regulations are complied with in such cases Policy.

The Investment Manager shall always act in the best long-term interests of the Fund's beneficiaries. Specifically, it shall continuously monitor its Investee Companies in order to minimize the risk and maximize the returns for the Fund's beneficiaries. The Investment Manager shall primarily use information that it publicly receives from Investee Companies to monitor the business and the risk-reward of its investment. This information would be from various public sources from the Investee Companies, their competitors, their customers/suppliers, their regulators (if any), etc. with sources of the information, inter-alia, including quarterly results, company disclosures, management interviews, etc. Monitoring shall be a continuous process based on receipt of aforementioned information and additional analysis by the Investment Manager. Areas of monitoring include:

a) Company strategy and performance – operational, financial, capital allocation decisions like capacity expansions or mergers and acquisitions, 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, related party transactions, etc.

e) Risks, including Environmental, Social and Governance (ESG) risks

f) Shareholder rights, their grievances, etc.

The Investment Manager will be vigilant regarding insider trading information during the monitoring process. During the time taken for the Investee Company to disclose this information to the public, the Investment Manager shall not trade (buy or sell) any underlying security of the Investee Company, shall not convey the information to anyone else and shall abide with all other restrictions mandated by the relevant insider trading regulations. If the Investee Company is seen as non-cooperative with the Investment Manager's disclosure request, the Investment Manager would likely contact the relevant department within SEBI for further guidance, while still fully complying with all relevant insider trading regulations.

#INTERVENTION IN INVESTEE COMPANIES

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 shall always act in the best long-term interests of the Fund's beneficiaries. This would imply intervening in its Investee Companies when such interests are under threat. Since the Fund's investment strategy is to invest in companies with good promoters and management, it is likely that the Investment Manager will generally be a passive investor. However, when the Investment Manager believes that the long-term interest of an Investee Company's shareholders, and hence of the Fund's beneficiaries, are being negatively impacted by the actions of the management team, then the Investment Manager would consider an intervention.

Circumstances for intervention may, inter alia, include poor financial performance, corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigations, etc. An intervention would only be considered if the key underlying thesis of the investment remain true; if not, the Investment Manager would sell down the investment without any intervention. In other cases, the potential costs and benefits from an intervention would also be weighed against selling down the investment to be redeployed into a different investment chosen among the opportunities prevailing at that point in time.

As a first step of an intervention, the Investment Manager would convey the point of disagreement to the Investee Company's management to attempt a friendly resolution. If the outcome of such a step is unsatisfactory, the Investment Manager would raise the issue to the Investee Company's Board, especially Independent Board members, likely through private correspondence. If the outcome of such a step is still unsatisfactory, the Investment Manager would collaborate with other institutional investors and large shareholders in the Investee Company to act together to convince the Investee Company's management and Board, and if required, vote against management's decisions and appointments in subsequent Annual General Meetings, or whenever such resolutions are put to vote. If all modes of intervention fail, the Investment Manager will sell down the investment. The Investment Manager will regularly assess and review the outcomes of all such interventions with an intention to continuously improve the process for all future interventions.

#REPORTING OF STEWARDSHIP ACTIVITIES

Institutional investors shall report periodically on their stewardship activities to their clients/ beneficiaries in the following manner:

• A report may be placed on website on implementation of every principle. Different principles may also be disclosed with different periodicities. Any update of policy may be disclosed as and when done

• The report may also be sent as a part of annual intimation to its clients/ beneficiaries.

Furthermore, a report of the stewardship activities as outlined in this document shall be prepared and shared once a year with the Fund's beneficiaries.

#Review and Up dation of Policy:

The Policy shall be reviewed every year and shall be updated, as necessary and shall be placed before the Boards of AIF and Trustees, for their approval.

#Disclosure and Reporting:

The Policy shall be disclosed on the website of AIF for the information of the unitholders.

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