



INDIA: Mind The Gap

*Can Governance minimize risks,
protect returns?*

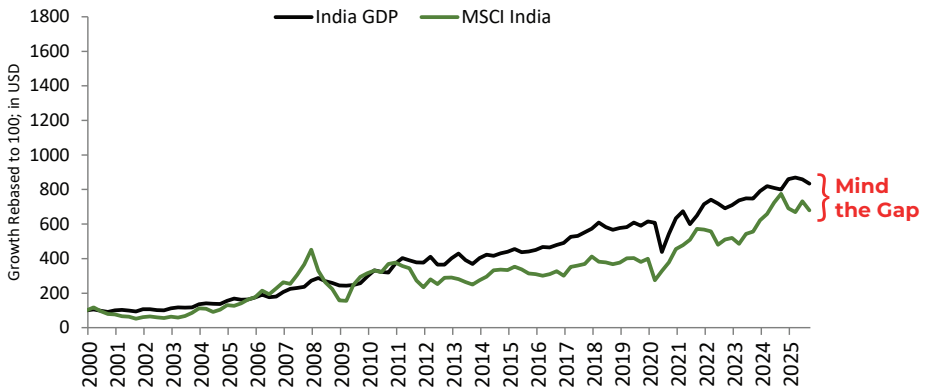
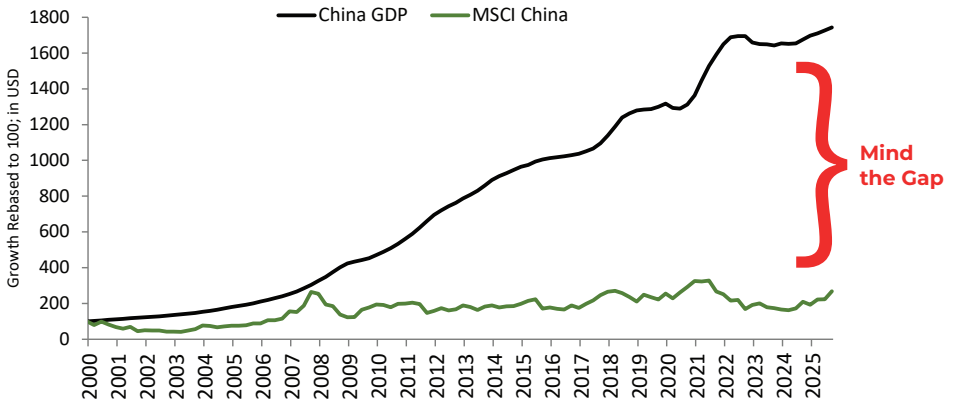
*Do Index funds and ETFs protect you from the risks
of investing in companies with poor governance?*



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GDP growth = Equity returns?
 China GDP growth 2x India, Indian equity returns 2x China



Source: Bloomberg & MSCI, All data in USD, GDP and Index data is quarterly till September 30, 2025.

This is only for representation and understanding purpose and does not assure any promise or guarantee of outcomes in the future.

Past performance does not guarantee and is not indicative of future results

GDP Growth = Equity Returns?

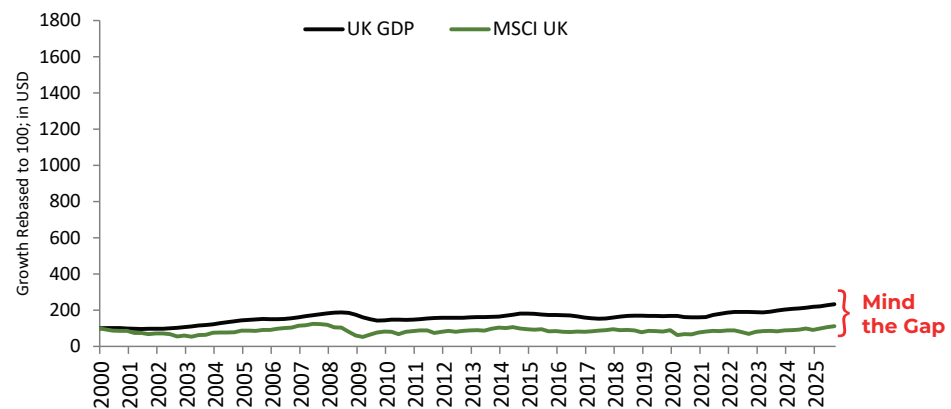
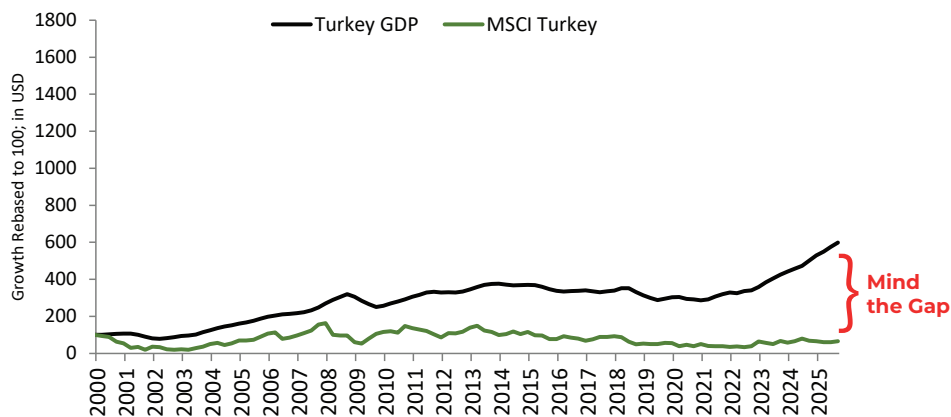


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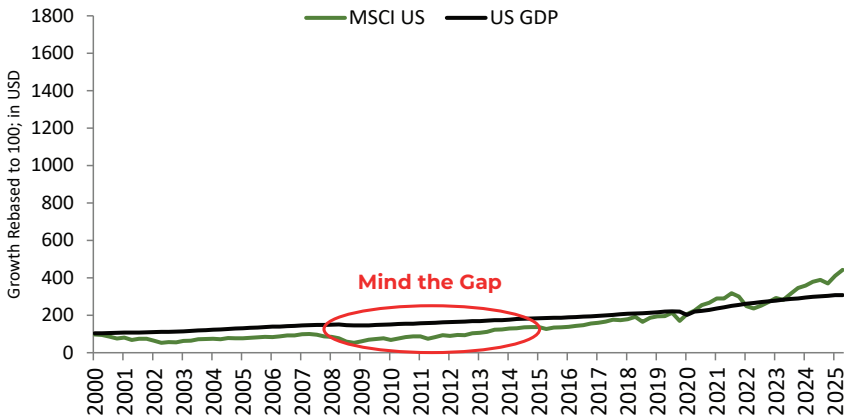
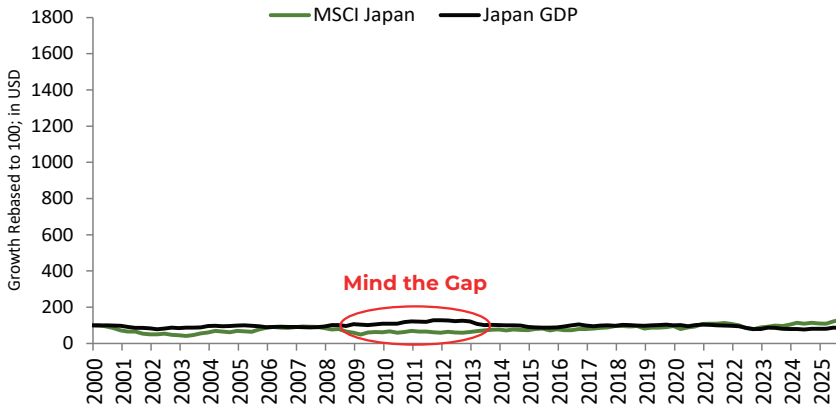


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Mind the Gap

Ajit Dayal

The thesis of investing in equity markets is simple. As the profits of a company grow, the share price should increase over time to reflect that growth in profit. In most instances, companies operating in countries with higher rates of economic growth should have an easier time growing their profits – the tailwind of being domiciled in country where everything is booming should provide the tailwind to build profits. Companies that exports goods and services to the world or have technological breakthroughs (or are faced with technological obsolescence and fading product life cycles) have different dynamics. But, generally speaking, the thesis why investors are attracted to Indian stock markets is the fact that India is amongst the world's fastest growing economy (within the G20) which means, there is an opportunity for growing profits-and higher share prices.

But as some of the charts on the previous page indicate, there can be a 'gap' between growth rates in GDP and stock market returns. That gap at a country level may be due to poor governance and policy making, a lack of trust in a system that is opaque, a reflection of the reality that a country has gone rogue and faces international sanctions and is classified as 'un-investable'.

Investors need to 'Mind the Gap' between the macro story, company profits, and share prices at two levels: (i) is there a failure of governance at a national, policy-making, societal level, (ii) is there a governance failure at the micro company level where, despite high profits in a business, the founder shareholders find ways to funnel profits into private side-pockets and deprive the minority shareholders of their rights to a proportionate share of profits?

For long-term, thoughtful investors the risk of 'permanent loss of capital' from poor governance should matter more than the daily, weekly, monthly or annual swings in share prices. In a world inundated with an exponential growth of 'noise' from talking heads - and given legitimacy by academics supports by grants from financial firms - the short term focus is so deafeningly loud that the long-term investor has become less thoughtful and risks the fate of dinosaurs: extinction as a species.

Volatility is clueless about the 'risks' of running a business.

One of the biggest myths of investing taught in every finance course as a part of respected degrees such as the MBA and CFA is the equation that "volatility is a measurement of risk".

For long term investors, volatility is the up and down movement of the price of a security or product. That is not "risk". Risk is the probability of a permanent loss of capital. Volatility is relevant when you are trying to profit from short-term movements in market prices. Long term investors don't focus on volatility as a measure of risk; they wish to assess the probability of loss of capital. In our desire to measure everything around us with quick and dirty formulas, volatility has become the proxy for reflecting the risk of investing in the security of a company.

Astute, long-term investors should not be gamed by incorrect yardsticks such as 'volatility'. The thoughtful investor knows that the yo-yo measurements of a company's share price is not 'risk'. The thoughtful investor knows that risk is something more than these jagged lines that plot intra-day price movements and generates 'vol' calculations.

The thoughtful investor knows that risk is a measurement of the lack of faith and lack of trust in the ability of the founders of companies, their management teams, and their boards to ensure that a business is run in a 'fair' manner to make profits for 'all investors' - without putting the company in danger from adopting poor practices which may adversely impact customers, employees, suppliers of goods and services, the community which hosts the company's business operations, and the regulators and agencies which the business needs to deal with.

Gaps that rogue founders and managements build

Let's take these factors individually with examples.

- i) Customers: when companies like Phillips & Morris or ITC sold tobacco products to customers, were they aware that their product could cause cancer? If they were aware, did they hide the fact and continue to sell cigarettes? When thousands of customers ended up with damaged lungs, will the companies be hit by lawsuits to pay the

medical bills of survivors and compensation for the relative of those who have died from lung cancer?

- ii) Employees, Processes, and Systems: if employees are incentivized to mis-sell products not suited for customers there is a risk of allegations of fraud and liabilities of fines and penalties. As an example, there are multiple stories in the press and allegations that banks and mutual fund companies have adopted policies that pressurize their customer-facing staff to bait customers into buying products that are unnecessary for the customers - but great for the commission income of the bank. Not only is there a regulatory risk of losing one's license to operate as a financial firm but wouldn't there also be the reputational risk to the company which could make customers walk away to more honest competitors? When a Cobrapost sting operation in March 2013 uncovered that many banks in India were offering their customers methods to convert untaxed, undeclared wealth ('black money') into 'white money' that was a risk of operational failure and oversight from banks who were chasing growth and rewarding staff for achieving business targets. The Reserve Bank of India imposed a fine of INR 50 million on Axis Bank, INR 45 million on HDFC Bank and INR 10 million on ICICI Bank for violations of the KYC norms.

Operational and service-related failures between 2018 and 2020, prompted the Reserve Bank of India to restrict HDFC Bank from issuing new credit cards and launching new digital initiatives. This action, taken due to repeated, severe technical outages in the bank's digital banking, mobile app, and payment services, was fully lifted by August 2021 but HDFC is now seen as a glorified PSU Bank. Long-term shareholders have suffered due to a culture of 'bania ka hisaab kitab hai' where, ostensibly, the short-term profit motive has resulted in a less than 20% increase in its share price over the past five years, while the peer group has seen gains of between 80% and 120% over the same time-period.

- iii) Suppliers of goods and services: a company that negotiates with

suppliers to purchase raw materials and then delays the payments – or asks for discounts or kickbacks to release payments – is not likely to be treated with high respect by the supplier - unless, of course, that is the way the supplier wins their business!

Long term relationships with suppliers are important for a business to plan its production, inventory and finances. Disruptions in supply chains can adversely impact a business. Companies manufacturing mobile phones or cars are mere assemblers, the hundreds of key components land up in a just-in-time schedule at the floor shop. If the tyres do not arrive on time, no car can roll off the assembly line. If the battery does not arrive in time, no mobile phone can be sent to shops for sale to customers. Delays can cause customers to cross the road to another dealer to buy another car or make few clicks in the comfort of their homes and buy another mobile phone. Is this good for the long term business interest of the company and its shareholders?

- iv) Community: Just as our parents taught us to be civil, a considerate and pleasant business has to be mindful of their behaviour in the community in which they operate. In December 1984, the tragedy of Bhopal where a leak of poisonous MIC gas from a Union Carbide factory killed thousands and resulted in a settlement of US\$ 470 million in 1989. In 1995, South India Viscose had a leak in its viscose staple fibre plant in the village of Sirumugai in Tamil Nadu. Reportedly, many people were injured due to the release of poisonous gases. Saddled with the cost of adding pollution-control and sewage-cleansing equipment as an after-thought, the company ended in bankruptcy and over 8,000 jobs were lost – and shareholder capital was destroyed. While these are incidents from the past that made the press, we can expect more such incidents in India as we battle the need for more minerals (which requires the activity of blasting and mining) and the impact of our needs on community, lives, the air we breathe, the water we drink, and the soil on which we grow crops that feed us.
- v) Regulatory Oversight: Most businesses have regulators, government

departments or agencies which monitor their activity. Additionally, there is a judicial system which can punish a company for poor behaviour. Take the example of the recent fiasco at Indigo Airlines. As India's largest airline with a 65% market share of all passenger traffic, Indigo was to comply with a modified rule of the Director General of Civil Aviation (DGCA) covering the working patterns of pilots. The Flight Duty Time Rules (FDTL) spelt out (a) how many hours each pilot could fly, (b) had clearly defined how many night landings a pilot could fly, (c) the hours of duty in a week, etc.

This set of FDTL rules was issued since early 2024 and was to be implemented by November 1, 2025. The DGCA waived the implementation date to February 10, 2026, after Indigo hit a wall on December 3, 2025.

Indigo had not changed its operational schedule to account for the need for more pilots to maintain its schedule or to reduce its schedule to accommodate the new safety rules. As such, an estimated 1,000 flights impacting over 200,000 passengers and – given that it was wedding season in India – probably over 2 million people may have been impacted by the delays. There were reports of brides and bridegrooms unable to attend their own wedding in person with a had to greet their family and friends virtually! Imagine the trauma. How loyal would those customers be to Indigo? What is the probability of a class action lawsuit in the USA if any of those impacted were US citizens? The delays were not due to weather but, as a lawyer may argue, were the result of a deliberate effort to game the system and maximize near-term profits at the cost of safety and schedules? The DGCA imposed a fine of INR 220 million on Indigo in January 2026. But that may not be the end of the story.

In all these above examples, the minority shareholders trusted the founders, the management teams and the board to ensure that the business would not take undue risks, would follow laws and regulations, be fair to customers and not endanger the value of the business in any way.

Sadly, they were let down.

In a July 1991 interview with The Economic Times, then Finance Minister (and later, the Prime Minister) Manmohan Singh said, “Investment is an act of faith”.

An investor purchasing shares of a publicly listed company is demonstrating an act of faith in the management and founder’s ability to build a profitable business with oversight of protection from members of the board. Businesses that last for generations are built on a combination of Integrity and Competence. If backed by patient shareholders who care about values of Integrity, a company can survive cycles of incompetence by changing the management team or the product mix. But, if a company violates the trust and faith placed in it by a long-term investor, it is time to exit the stock. Integrity is rarely repairable.

There is an explicit investment backed by an implicit understanding that, a minority investor, is providing capital and expects a proportionate share of the profits. If the minority investor owns a 1% equity stake, they have a right to 1% of the reported profits. If the minority shareholder owns 0.001% of the company, they have a right to 0.001% of the reported profits.

Volatility, which is worshipped in financial courses, is clueless about any of these real business risks and has no yardstick to contemplate the concept of ‘faith’, let alone measure it.

The stash of cash into side pockets.

Minority shareholders of listed companies, particularly in countries like India, have the added challenge of ensuring that the companies they invest in are not diverting monies that belong to the listed company into side pockets for management teams or family members via reported or unreported related party transactions.

Every shareholder has the right to a proportionate share of profit which an enterprise generates. There are many ways to siphon money from the listed company in which the founders have a smaller shareholding into privately held entities where the founders have full ownership of the loot. A few examples of poor governance would be:

- i) A listed company imports raw material like coal, iron ore, steel, or oil for use in the manufacturing process of a listed company. If the actual raw material cost is \$100, the founder may instruct the supplier to ship the material to a privately held company outside India and subsequently pay the supplier US\$ 100 for the raw material. The enterprising founder will then sell the same coal, iron ore, steel, or oil to his listed company for \$120. This ensures a guaranteed \$20 profit with no risk at all. If a minority shareholder owns 5% of the listed company, they were just cheated of \$1 $\{(\$120-\$100)*5\}$ because the company they own shares in paid \$20 more for the raw material which was routed through a private company owned by the founder.
- ii) Similarly, if a company has to sell products like coal, iron ore, steel, or oil and the market price they could get is \$100, the founder may decide to set up a privately owned distribution and marketing company and buy the product from the company at \$80, keep it for one day, and then resell it in the market for \$100. This allows the founder to earn \$20 profit in the private marketing company. The minority shareholder with a 5% stake in the listed company just lost \$1 $\{(\$100-\$80)*5\}$.
- iii) When a new project is announced to set up an oil refinery, a steel plant, or an automobile factory there is a need to pay a host of suppliers for the equipment for the plant or for the engineering services to build a plant. The founder may encourage the supplier to over-invoice the amount (a crane costing \$100 an hour may be billed at \$120 per hour) and the founder will pocket the spread.

These privately owned companies, through which the founder routes raw materials or finished products may be on-paper companies with skeletal staff. Typically, they carry no risk. They will only import what the company needs so they have no risk of being stranded with any inventory of raw materials. 'Over-invoicing' and 'under-invoicing' are the most common ways for founders of companies to get insanely rich at the cost of minority shareholders?

Does an Index deal with risk; does an index work in India?

Institutional investors such as pension funds and family offices often prefer investing in publicly listed stocks via passive or index funds.

After decades of paying high fees for ‘alpha-seeking’ active managers in a range of styles such as “growth”, “value”, “large cap” or “small cap” the outcomes of these investments in active strategies has not generated the ‘alpha’ they seek for the costs incurred. This disappointment has led to the infatuation with the low-cost option of index funds and passive strategies.

Since 1993, when passive investing began to take root in the US, the pool of assets in index and passive funds has seen phenomenal growth and, in 2025, the pool of capital in passive funds exceeded the pool of assets in active funds.

But there are fundamental problems with passive investing in India:

- i) Governance is a far greater issue in evolving markets like India and is not factored into how indices are compiled. Indices are tone-deaf to the issues of governance. The economic interest of the index provider is to ensure the largest, the most actively traded stocks are part of an Index. The higher the volume of trading of a stock in the index, the more it can be replicated. The more that it can be replicated, the higher the potential fees that the index provider collects as a royalty or license. The governance factors may force index providers to exclude large, actively traded companies: that may not be good news for their revenues;
- ii) Indices are a popularity contest. A company qualifies to be included in an index when its market cap and trading volume are already large. In evolving economies like India, entire sectors such as asset management, insurance, stockbrokerage, media, and software services were not in indices for decades. The companies were too small to make the grade for being included in an index. The indices are playing catch-up to the ‘India-story’.

- iii) An index has no cost of transaction. In reality, every trade that is executed by an index fund or an ETF to mimic the underlying trades of the index they track has costs of brokerage (5 bps), a bid-offer spread (5 to 20 bps), a transaction tax (3 bps) and a capital gains tax (20% for securities held less than one year, and 12.5% for securities held more than one year), under the Indian Income Tax Act.

When all these disadvantages, which are not initially evaluated by buyers of index funds, are witnessed over time, you may start to see the problem.

“plain foolish”

In February 2010, I received the following email response from John Bogle, the founder of Vanguard, on my nascent understanding of index construction in India and whether investing in an India-focused index fund was a good idea. The late John Bogle – affectionately known as Jack to his friends and crew - was the father of index investing, so his opinion should matter.

During my years working with Tom Hansberger (the co-founder of Templeton, Galbraith & Hansberger), I had the honour and the privilege of being the Lead Manager of the Vanguard International Value Fund, an actively managed portfolio which Vanguard would offer to those investors who wished to have an active investment strategy.

The email exchange with Jack is so startling that it deserves a page by itself.

Extract from the email sent by Ajit Dayal to Jack, February 25, 2010:

While we have an ETF, we believe more in the actively managed style (we are value investors). This is because the indices in India are still immature and evolving. Typically, the index creators change between 10% and 20% of the stocks in an Index in any given year.

The “losers” are taken out and the “surging stocks” are counted in.

Of course, there is no transaction cost for such a move! But, if an ETF was to mirror this (and we have one, but with a 15 month track record), the real cost of mirroring the changes in the Index would lead to huge tracking errors over time.

Extract from the email response received by Ajit from Jack on February 25, 2010

“Hi, Ajit,

I'm so sorry that I can't meet you. I'll be travelling all next week.

For all the reasons I've expressed over the decades, I strongly prefer classic indexing over active management, even over "value" investing. But the indexing strategy you describe in India sounds just plain foolish.

Good luck in your work!

Best,

Jack B

Wow!

What an indictment of an index from the Father of Indexing!
“just plain foolish”

Now, why would John Bogle make such a blasphemous statement?
Why would the Father of Indexing be so against the very creature he created and spent a lifetime popularizing?

After the collapse of Satyam on January 7, 2009, I was intrigued by how indices were constructed. We began to collate data on the different indices in India, the number of companies that were changed in the course of a calendar year, etc. As you can see from the table below, the BSE 500 Index (with 500 stocks in it) had 108 companies added to it in CY 2003. Which means that 108 companies were removed, and 108 companies were added in. This means that an index fund or ETF mimicking the underlying Index had to make $500+108 = 608$ transactions to mimic the underlying index and minimize tracking error. Imagine the cost of 608 transactions with all the brokerage costs, the Securities Transaction Tax and (since 2019) the capital gains tax.

In CY 2008, after the collapse of Lehman, the BSE 500 Index had 543 changes. No typos there. 543 changes. Which means you had to throw out the baby, the bathwater, the bathroom and demolish the entire house to build a new India exposure.

And this is called ‘passive investing’?

Or, as in the characteristically polite underplay in the words of the legendary Jack Bogle “sounds just plain foolish”.

| No. of scrip replaced | CY 03 | CY 04 | CY 05 | CY 06 | CY 07 | CY 08 | CY 09 |
|-----------------------|----------|----------|----------|----------|----------|----------|----------|
| BSE Sensex | 5 | 2 | 2 | 1 | 2 | 3 | 2 |
| BSE 100 | 28 | 24 | 11 | 13 | 26 | 12 | 2 |
| BSE 200 | 50 | 51 | 16 | 28 | 60 | 26 | 3 |
| BSE 500 | 108 | 81 | 58 | 138 | 140 | 543 | 18 |
| Nifty 50 | 3 | 5 | 2 | 3 | 6 | 3 | 5 |
| MSCI India | 16 | 9 | 46 | 8 | 21 | 20 | 9 |
| Dow Jones-30 | 0 | 3 | 0 | 0 | 0 | 3 | 2 |
| S&P 500 | 9 | 43 | 18 | 105 | 39 | 47 | 34 |

Source: Bloomberg Finance L.P., Data as of December 31, 2025

Though turnover as measured by the addition / deletion of companies in the indices has declined over the past few years, the index builders continue to live in a dream state of no friction in the costs of a fund or ETF replicating the index. It is possible that the managers of passive funds were really smart in hiding these transaction costs by taking ‘bets’ on tracking error to avoid the full impact of rebalancing on your portfolio.

But, in 2019, when the government of India imposed the capital gains tax regime as described above, one could no longer sweep transaction costs under the rug of possibly making a calculated decision on not reflecting the entire index and hoping the tracking error does not show up.

| No. of scrip replaced | CY 03 | CY 04 | CY 05 | CY 06 | CY 07 | CY 08 | CY 09 | CY 10 | CY 11 | CY 12 | CY 13 | CY 14 | CY 15 | CY 16 | CY 17 | CY 18 | CY 19 | CY 20 | CY 21 | CY 22 | CY 23 | CY 24 | CY 25 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| BSE Sensex | 5 | 2 | 2 | 1 | 2 | 3 | 2 | 3 | 2 | 2 | 2 | 0 | 3 | 1 | 3 | 3 | 4 | 2 | 2 | 1 | 3 | 2 | 6 |
| BSE 100 | 28 | 24 | 11 | 13 | 26 | 12 | 2 | 11 | 9 | 4 | 4 | 0 | 8 | 3 | 17 | 4 | 6 | 11 | 7 | 12 | 14 | 12 | 7 |
| BSE 200 | 50 | 51 | 16 | 28 | 60 | 26 | 3 | 30 | 16 | 16 | 29 | 12 | 21 | 14 | 17 | 27 | 15 | 13 | 11 | 19 | 29 | 15 | 17 |
| BSE 500 | 108 | 81 | 58 | 138 | 140 | 54 | 18 | 71 | 42 | 55 | 66 | 47 | 67 | 43 | 43 | 46 | 40 | 46 | 40 | 44 | 63 | 48 | 64 |
| Nifty 50 | 3 | 5 | 2 | 3 | 6 | 3 | 5 | 4 | 2 | 4 | 3 | 3 | 4 | 3 | 6 | 4 | 2 | 4 | 1 | 2 | 3 | 3 | 9 |
| MSCI India | 16 | 9 | 46 | 8 | 21 | 20 | 9 | 10 | 10 | 5 | 10 | 10 | 16 | 9 | 7 | 7 | 13 | 17 | 13 | 12 | 24 | 30 | 16 |
| Dow Jones-30 | 0 | 3 | 0 | 0 | 0 | 3 | 2 | 0 | 0 | 2 | 3 | 0 | 1 | 0 | 1 | 1 | 1 | 3 | 1 | 0 | 7 | 5 | 1 |
| S&P 500 | 9 | 43 | 18 | 105 | 39 | 47 | 34 | 18 | 25 | 25 | 23 | 17 | 34 | 42 | 43 | 38 | 32 | 26 | 30 | 24 | 24 | 25 | 28 |

Source: Bloomberg Finance L.P., Data as of December 31, 2025

Avoid the trap of the Gap

Here we are in 2026, and institutional investors are faced with facts and choices:

1. India has a 45 year track record of growth in GDP being 2x the global growth rate of GDP;
2. The next two decades continue to look exciting from the viewpoint of the trajectory of economic growth;
3. Governance is an important concern for investing in India as it is in the

USA markets whether it is unfair voting rights (Mark Zuckerberg, Meta), questionable ESOP (Elon Musk, Tesla), allegations of corruption (Cognizant paying bribes in India) or outright fraud as was the case with Theranos and Elizabeth Holmes;

- 4. Passive investing in India, to quote the Father of Indexing, John Bogle, “sounds just plain foolish”.

In an India context, the big question for CY 2026 and beyond will be whether asset allocators continue to invest in passive India index funds and ETFs and write in their annual reports to their Board of Trustees and beneficiaries that they are following high standards of governance and fiduciary responsibility?

OR

Will asset allocators spend the time and energy to seek active managers across strategies and styles who can build portfolios with low turnover, high conviction, and at a low cost?

MSCI India ETF return lags its own benchmark by ~120 bps

Too many frequent changes
 high trading / execution costs
 + tax on capital gains on excessive churning?

| | 1 year | 3 years | 5 years | 10 years | Since Inception |
|---|--------|---------|---------|----------|-----------------|
| Total Return as of Jan 31, 2026 | 0.70% | 8.32% | 7.25% | 8.43% | 6.24% |
| Market Price as of Jan 31, 2026 | 1.47% | 8.40% | 7.30% | 8.37% | 6.27% |
| Benchmark as of Jan 31, 2026 | 0.97% | 10.49% | 9.25% | 9.91% | 7.45% |

Source: *ishares.com, iShares MSCI India ETF, performance as of January 2026, Benchmark – MSCI India Index, Inception date: Feb 2, 2012*

Past performance does not guarantee and is not indicative of future results.



Hunt For Governance

Chirag Mehta

“When you shake someone’s hands, count how many fingers you get back” is not just a saying—it is the unsaid first rule of investing. In a market where ambition runs high, disclosures run thin, and the influence of founders on Boards can outweigh governance norms, this phrase becomes a survival tool. It urges investors to look beyond charm, credentials, and glossy presentations to ask a far more important question: Can this management / founder be trusted with your capital? Those who fail to make this distinction often discover that the real danger is not volatility or macro shocks, but the quiet corrosion and decay of integrity within a business. For investors with a buccaneer attitude to investing, this harsh and expensive lesson is learnt through unpleasant experiences.

Governance is frequently reduced to checklists and policies, yet true governance reveals itself in consistency of behavioural patterns driven by an element of fairness over long periods of time. Market swings are visible on trading screens; governance failures are rarely visible and die a quick death in our desire to forget the painful loss of capital as we rush to embrace the next new, ‘new thing’.

Cracks in governance crawl on us and emerge slowly—through subtle gaps in reporting and actions, incentive structures that reward short-term wins, unusual related-party arrangements, or lack of adequate oversight that leaves decisions unchallenged. Such warning signs can sit undetected for years before collapsing into full-blown crises. Global markets have learned this lesson repeatedly, with episodes like Enron and Wirecard proving that even mature systems can miss the early signals when oversight weakens or incentives distort. India’s own chapters—Satyam and IL&FS being the most dramatic—show that financials look optically strong long after governance has already deteriorated.

“Investment is an act of faith”

In July 1991, Finance Minister Manmohan Singh oversaw India’s big bang reform and reminded us of the adage, “Investment is an act of faith”.

India’s uneven investment landscape, dotted with eager entrepreneurs

hungry for market cap and fame, makes risk-assessment more complex. Ownership structures can be opaque, with webs of subsidiaries and affiliates masking true value (and cash) flows. Related party transactions may be legitimate and overseen by auditors, but they can also become highways for cash diversion. Regulatory action and oversight, while steadily improving, does not always evolve at the pace businesses gallop, creating windows for questionable practices to take root. Political affiliations can turn fortunes abruptly, enabling business models built on relationships rather than resilience. In private markets, where liquidity is scarce and transparency limited, misgovernance can remain hidden until it is too late to act.

These conditions demand that investors adopt a way of screening integrity, which looks far deeper than statutory disclosures. Financial statements provide a snapshot, but they rarely tell the full story. A credible integrity assessment brings together financial scrutiny, on ground observations, historical behaviour patterns, treatment of minority shareholders, stakeholder management and a careful reading of management's actions during both expansion and distress. The goal is to identify whether a leadership team is building enduring value - or merely constructing momentum until circumstances shift.

Global governance norms offer a useful foundation, but they cannot be applied mechanically to the Indian landscape. Structures designed to ensure independence and transparency can be replicated - without delivering true accountability. Boards may appear independent yet defer entirely to founders. Auditors may follow formal processes yet overlook deeper inconsistencies. Disclosures may be voluminous while revealing nothing of substance. India thrives in the gaps where formal compliance often coexists with informal practices and cultural dynamics - only a thorough screening and trained judgment can detect the possible mischief. Understanding the intent behind governance, rather than the paperwork of tick-the-box, becomes essential.

Integrity Screen, sift out the muck

A true Integrity Screen in India should focus on outcomes, not optics. It assesses whether reported profits convert into cash, whether working capital cycles make operational sense, whether capital allocation is driven by discipline rather than empire building, and whether related party dealings are explained with clarity rather than wrapped in ambiguity. The Integrity Screen examines who truly holds influence, not just who holds titles. It evaluates succession clarity, responses to regulatory scrutiny, and the consistency between what management says and what it does. Narratives are validated – or exposed - through factory visits, supplier conversations, competitor checks, and independent channel intelligence.

Most of the failures that we have seen in India over last twenty years have been governance problems as opposed to business failures. Most governance failures in India do not begin with fraud; they begin with drift. A little stretch in revenue recognition. Tax juggling. A growing dependence on political proximity. A complex subsidiary added for reasons no one can fully explain. No single move breaks a company—but together, they form cracks that widen until collapse becomes inevitable. Investors who wait for formal disclosures will always be late. Those who watch behaviour, culture, and structure can spot deterioration far earlier.

The rise of passive investing intensifies this challenge. Indices reflect size and liquidity, not integrity. When a governance issue finally surfaces, passive funds are trapped and await the rescue from an index provider of removing the failed company from the Index, adding in a new company and rebalancing to add to 100.00%. All this activity of rebalancing by the index provider is done on an xl sheet with no costs of transaction and no impact of a capital gains tax. Sweet. Sadly, the sponsor of a passive fund lives in the real world and must incur these costs – and is guaranteed to underperform the benchmark passive index. Meanwhile, active investors who prioritize integrity have the rare advantage of acting before the market prices in the risk, potentially avoiding compromised companies entirely or engaging proactively with those willing to explain and reform: intent is the key! Avoiding ‘headline risk’ is the necessary objective.

India remains one of the world's most exciting growth economy and is

host to growing capital markets. Brimming with entrepreneurial energy, demographic strength, and technological acceleration, the buzz is palatable in many bustling towns and cities. But the corporate landscape in India is diverse, uneven, and potentially treacherous. The investors who thrive here are not the ones who solely focus on business outcomes; they are the ones who understand nuance, combine scepticism with insight, and balance ambition with discipline.

An Integrity Screen does not close doors in India—it helps investors open the right ones. It is the only reliable way to participate in the country's growth while safeguarding both capital and reputation. In a market that rewards conviction but punishes complacency, “shake hands but count how many fingers you have on your hand when you get it back” is not cautionary cynicism. Diligent governance is the foundation of long term success.

3

Governance: A Key Ingredient For Long-Term Returns?

Jen Sisson, Amarjeet Singh

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Ajit: Thank you for joining me on what I think is an exciting discussion on governance and whether long term investors face the risk of investing in companies with poor governance and, therefore, impede their rates of return when allocating capital to such investments?

Jen Sisson, the CEO of International Corporate Governance Network (ICGN) whose members manage about US\$ 77 trillion of AuM. ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long term value creation. Jen made her first visit to India on behalf of ICGN in November 2025.

Amarjeet Singh has a long and distinguished career with the Indian regulator, Securities and Exchange Board of India (SEBI, where he is currently a Whole Time Member of the Board. Amarjeet has been instrumental in multiple efforts such as the Stewardship Code for mutual fund managers in India's booming mutual fund industry and was instrumental in creating the Social Stock Exchange in India in 2023.

With that introduction and background, let me first turn to Jen. Jen, welcome to this discussion. You visited India in November of 2025 and had a whirlwind tour. I forget how many people you met, but it's an impressive number. Any views when you left India, your first trip, what did you think, and what next?

Jen: Thanks Ajit, thanks for having us. The first thing I would want to say is ICGN has members from all over the world. And what is for sure true is that while the rules and regulations anywhere are local, capital is super global now. So, everybody's looking everywhere. For a number of months and years now, there's been a lot of interest from ICGN members in what's happening in India regarding corporate governance. We are big believers that governance is a value driver. Governance is a way of making long term sustainable investments. And I always say "G is key". So for me, I'm quite optimistic about there being a lot of value to be had in India around governance and, and we'll be back for more visits for sure!

Amarjeet: Thanks for having me in this conversation, Ajit. Corporate governance in India – and you have been witness to it as much as I have been involved - has been an area of high priority for us since SEBI started. Corporate governance adds to the transparency and integrity of the market.

If we have to attract foreign investment, if we have to increase our retail investor base, which is actually increasing in the last few years very rapidly. We had about 50 million demat accounts 5 years back, today we have 210 million demat accounts. So it's very important to maintain the faith and confidence of new investors who are coming in the market and that's where I see corporate governance becomes very important. Good corporate governance helps everybody. It helps the companies, it helps the regulators, it helps the economy.

Ajit: Jen, is there a set of rules that ICGN has as a prescription, a one size fits all which you can give to Amarjeet and Sebi and say this is ICGN's recommendation, this is our suggestion.

Jen: Every company is different, every board is different. The whole ecosystem in which you operate is different. Governance is really much more of a practice, right? It's something that you do. It's not something that's a thing that you can hold. And so it inevitably does have to be a more principles based approach.

But ICGN does have what we consider guiding principles, global governance principles that are very well known, that they're acknowledged by the OECD. The fundamentals of good governance are: should have sufficient independence on your board and you should make sure that you have appropriate shareholder rights protections. Because the shareholders own the company. The nuance of exactly how you might do it is going to depend on all sorts of different things. Governance structures are different in different countries, but we do have guiding overall principles that we think are what one should aspire to adopt - and the path on how to get there. The devils in the detail and we work on that locally.

Ajit: Sebi came up with a phenomenal Business Responsibility and Sustainability Reporting (BRSR), which was mandatory for the top 1,000 companies effectively from March 2023. Amarjeet, has Sebi received any feedback, any positive, constructive thoughts on how to improve BRSR? Is there an push back from companies who have to implement and start reporting and disclosing things that they did not have to do before?

Amarjeet: So, Ajit, let me give you a little background so that we see it in proper perspective. When we developed BRSR - and I was very closely involved in that piece of work - we had very extensive consultation with our industry and we also benchmarked ourselves with what we were proposing. We benchmarked that with Global Reporting Initiative (GRI), Task Force On Climate-related Financial Disclosures (TCFD) & Sustainability Accounting Standards Board (SASB), which were the frameworks available at that point of time. We tried to build up a lot of acceptability with industry before we launched it and we launched it on a voluntary basis for the first year and, from the second year onwards, it became mandatory for top 1,000 companies.

Initially our thought process was this is a paradigm shift, you know in terms of corporate reporting, although we had an earlier version of BRR (Business Responsibility Reporting) since 2012, but that was not as exhaustive as quantitative as the new avatar of BRSR was. We received some feedback. In fact I would say it is still in some sense still work in progress. In the first year when it became mandatory stock exchanges, NSE, BSE in consultation with Sebi, they came out with a list of their observations based on first years reporting. They tried to address some operational issues, interpretational issues and so on. As we moved on, we realized that BRSR is being looked at by investors, by companies, by various other stakeholders. And so it has to be credible. Credibility of the information that is reported becomes very important from the regulatory perspective. We picked up some factors and we said on these disclosures, some 40 points, we called it the BRSR code and we said this BRSR code needs a third party assurance. We introduced the assurance requirement on a mandatory basis and we gave a light path to the industry, initially applicable to one set of companies and then progressively expands to our 1,000 companies.

On the BRSR code, we have a industry forum which works with us. They guide us on the metrics, how the metrics is to be prepared, how it is to be understood and so on. From fund managers, we haven't heard any serious issues as such. Our advisory committee has also given us some feedback in terms of the need for a taxonomy, need for maybe going forward, industry specific standards and so on.

I think it is a journey which we are on. It will evolve as we go along and also globally. Fortunately, I do not see that kind of pushback here in India and we are holding on to what we have – globally, as you know, there is a lot of pushback. For example, ESG has suddenly become a bad word in many markets.

Ajit: Jen, could you just touch upon the role of an independent director of the Board and the accessibility? Because when we had that discussion during your recent visit to India, I was very intrigued by the principle there should be accessibility to independent directors by shareholder in a company - no matter how many shares that individual or firm owns. That was an interesting concept. Could you elaborate on that, please?

Jen: It's important to note that from ICGN 's perspective, the independent directors are there on behalf of the shareholders. The very basic governance theory of this is that you have ownership, which is the shareholders - and you have control, which is management. The purpose of the board is to sort of bridge that gap and classical theory of this is that the directors are there to support and challenge - keep a check and balance on - management on behalf of the shareholders. Therefore, being an independent director is a super important role. And it is a role that is about wisdom and challenge and guidance - as well as it is about compliance. That is why there is so much value creation potential from having a great board. But that board should fundamentally be accountable to the shareholders, rather than to management. That is very important in terms of thinking about the mindset. Increasingly around the world, as investors have become sophisticated and active owners and stewards of their capital, the boards have also to seek to adopt best practices of corporate governance. What we would typically see is much more direct engagement between those independent directors and their

shareholders. Now that's not always going to be in a bilateral meeting because you couldn't, I would acknowledge, you can't have a meeting with every single person who owns one share in your company. But certainly for minority shareholders of some scale, this is not uncommon at all in markets across Europe, Australia, South Africa, North America - or even in Japan a little bit. The engagement of directors with the shareholders is growing, and that's very important, particularly around governance related issues. They're not going to be engaging on management decisions and that's important.

The other role of that engagement is the AGM - this is why we believe quite strongly you need to have an AGM. Ideally we'd rather an AGM was held in a hybrid form because that protects your shareholder rights and it also allows broad access. You have got to give all your shareholders an opportunity to ask their questions and, as they say, to see into the eyes of the directors. This access reminds the independent directors of their accountability and it allows the full chain to work in full view.

Ajit: In the context within India, we've had instances where independent board members have sometimes failed the protection of minority shareholders. And when things go to court, when there's a legal issue, Amarjeet, the minority shareholders are in a very strange situation because the independent board members did not protect their rights. The minority shareholders have to use their personal money to go to court to fight and file legal charges. Whereas the management which controls the company, which runs the company, has access to the cash in the company partially owned by those same minority shareholders who the management have allegedly harmed! So is there somehow, on a stewardship basis, that Sebi can balance that by saying that, look, if there's a court case going on, someone needs to pay for both the sides, not just one side - until the conclusive result.

Amarjeet: I know there is some thought on that in SEBI because the role of independent directors, as Jen elaborated, is very crucial. I think it's a great question. I would say it's very relevant in our context. So, let me start with the role of independent directors. Jen also mentioned and, and you know it very well, the very idea - especially in the context where family

ownership is very dominant in our markets - I think the role of independent directors becomes very important.

From a legislative perspective, they are supposed to protect the interest of minority shareholders. How it plays out in practice is different and I'll not get into that, but let's park it there at least legislatively. The vision is that the independent directors will take care of the interest of minority shareholders. Now what we have in India is also high level principle based stewardship code where we have provided that institutional investors should know and discharge their fiduciary duty, take care of the corporate governance concerns which they may have on behalf of minority investors and on for their own interest as well.

There could be practical situations where one institutional investor is in minority and may not really have much say. To address those situations, the code provides that a few institutional investors actually can come together and act. The code also provides that you can use the industry association to voice your general concern – in the case of India it is Association of Mutual Funds in India (AMFI). We are also looking at how can we facilitate coming together of the institutional investors for a common cause. Today you know they all work in silos. Can there be some kind of platform which is created by AMFI which facilitates coming together of institutional investors for a common cause?

The funding part that you raise is a very tricky one. We need to think through this, how to find funds for fighting a battle with the majority with the company or the majority shareholders. We have some framework to address the concerns that you raised. Whether it is working very well or good enough, that is a question to be considered and our thinking is, as we go along, we should at least begin by enabling the coming together of institutional investors on a common platform through, say, AMFI.

Ajit: Jen, you have got similar issues in, as an example, the US. You have independent board members and companies like Meta and Tesla where multiple voting rights for shares held by a founder far eclipse the voting rights of normal shares held by other shareholders and where ESOP plans that sound outlandish are approved by independent board members. How do the ICGN members react to these realities and these examples of

misgovernance in large developed markets like the US?

Jen: These are often very contentious issues. There isn't necessarily only one solution - you see different models in different countries. The UK has, for example, an organization called the Investor Forum, which is a bit like what Amarjeet was describing (AMFI). The Investor Forum is a mechanism for investors to come together to engage with companies on governance issues in a sort of protected format, where there aren't, for example, concerns of "parties acting in concert". In the US, it is more common to see litigation or to see shareholder proposals. The filing requirements are quite different in different markets. They may be binding or non-binding. I'm not sure that I can immediately think of any country that has solved the question of who pays - fundamentally the shareholders do pay for both sides of the lawsuit. I think it's an interesting point you raise where the shareholders in the company say, "well, all the money in the company that is spent is shareholder money". So that is an intriguing question. But it does seem to be that this is actually an issue everywhere.

The real questions are what are the mechanisms that work best to resolve these issues. Clearly, litigation is an important part of the framework. But we would hope that good engagement, good active shareholder rights throughout the process ought to be the first port of call. But in instances where there has been a kind of catastrophic problem, it does often get to litigation - all around the world. This is not just a problem in India.

Ajit: I'm sure that many of the members of ICGN who control US\$ 77 trillion dollars of capital are worried about governance. It is expressed in their annual reports, it is amplified on their websites. Yet, the pension funds, the Sovereign Wealth Funds seem to be moving to low-cost strategies, passive strategies – so they buy index funds.

Now, when they buy a passive index fund for its low cost, on one hand, and then on the other hand you say you want to improve governance that seems a conflict because indices in the developed world - and in the emerging markets – consist of companies with poor governance. An Index is built for maximum replicability based on market cap, liquidity and free float. So it's kind of strange that, on one hand, the pensions and SWFs

want good governance, but then their capital is supporting the share price of companies which follow governance patterns which the pensions and SWFs may not like. How do they solve that issue? There's a moral issue and there's a profit issue. So which one prevails?

Jen: Goodness. I don't know if we generally think about it as being moral, but I see what you mean. I think what we would do, we would normally kind of conceptualise, is that stewardship is quite a long term game, right? To be an active investor and to be a long term owner of something is to know that you own something for a long time. And whether you own that through the index or whether you are a stock picker, once you have bought the shares, you still have the same ownership rights and responsibilities, right? And so if you're an index investor, you're actually more incentivized to want overall practice to go up, presumably? As we would say in England, different strokes for different folks – there are different ways of doing things.

What ICGN does is mainly policy. So we don't say well, this company X and that company Y, did this or did that - what we do say is what should the broad framework be and how can we argue that the whole framework should be better? You do see many companies that have sub optimal corporate governance frameworks, and the way that investors will seek to change that is through mechanisms of better policies. Having the ability to file a shareholder proposal allows you to file governance related proposals that you can then seek to change practices. And governance related proposals are far more successful than environmental or social related proposals all around the world - because it's a solution to a problem and there's more consensus on it.

But you're right, index investing exists. In fact, most large institutional asset owners are basically universal owners. They sort of own everything. And that's why that we think there's a role for organizations like ICGN and certainly critical role for organizations like SEBI to set good market-wide standards. And what ICGN does is work on that: how can we support the roll out of the best possible practice everywhere?

Ajit: Have you met index providers on behalf of your membership at ICGN and say, "look, these companies account for 6% to 8% of the index and we

have an issue with their governance? And since our members at ICGN have issues with governance of companies in the index, is there a way to build an index without the companies with poor governance – even if they are large companies?

Jen: Well, I don't think there are indices that over or underweight different governance factors, but we would typically focus on the public policy, right? So, what we do definitely is engage on what should the listing rules be? What are the rules to be a listed company in the first place? And then you've got to kind of start from there. I don't know that we've done a lot of work directly with the index providers.

Amarjeet: I'm tempted to join in on this particular aspect. One specific point and one general point. So specifics - just picking up the last point on index providers. I think India is one of the few jurisdictions which has come out with regulation for regulating index providers and this has just kicked off very recently and we will see how it evolves - it's a light touch initially and we will see how it plays out.

That was the specific point. The second point was, if you look at it in a very integral manner, in a more holistic manner, I believe there are many check posts, many gatekeepers in the system. So I am being a bit of an optimist. You know, the kind of situations that you describe, I think there are very few, but I am not trying to justify by any means, but hopefully we don't see many such instances. So, for example, you have auditors, you have directors, you have media, you have invested activists, you have proxy advisors, you have stewards, you know through the asset managers, you have stock exchanges who are supposed to be monitoring the disclosures. Sebi. So, somewhere or the other, the system together hopefully works to keep the bad elements out and it will be hard for one to, you know, cross all the gates and get away with it. That's how I look at it more holistic down.

Jen: I totally agree. The ecosystem is critical, right? And everybody working together. I think one of the challenges we do observe in some markets, and Amarjeet mentioned that the term ESG has become intensely political in some places - is kind of a frustrating acronym. ESG means a whole bunch of different things to a whole bunch of different

people. And you're mixing ESG, which are - broadly speaking - lists of issues and G, which is a practice that has to be done by every single company. I think what would be far more useful is if we come from the opening view that their shareholders and the corporates essentially are all on the same team. The shareholders are invested in the company, they want the company to be successful; management run the company, they want the company to be successful. So should the board. We should start from there, we've got aligned goals. How can we best engage with one another and work together to achieve them? Because you are right, there's always, you know, there's extreme cases all over the place, but the system, the systemwide angle is very important.

Ajit: Looking out over the next 5 years - to ICGN on a more global field and to Amarjeet from the India perspective - are you more optimistic that governance will increase dramatically and improve rights of minority shareholders - or not so sure about the outcomes of the next 5 years?

Jen: I see a bit of a bifurcation Ajit, if I'm honest. There are markets in the world that I'm very worried about over the next 5 years. I'm worried about moves to seek growth at all costs, moves to deregulate markets. It's been a long time since we had a crisis and that is always a sign that you're going to see deregulation. And when you see that, you see issues happen. And so we worry about that happening. We see that happening largely in the western, developed markets.

What I would say I am super optimistic about there is Asia as a growth market for good governance. We've seen Japan over the last 20 years really focus on improving corporate governance. We've seen Korea have a huge step forward. We're seeing massive opportunity and you've got, as we've discussed, lots of great things happening in India. I think we see opportunity in Singapore and Malaysia and Vietnam, which is now growing hugely quickly. These are areas where there's scope for a lot of improvement and there seems to be appetite to be high quality. We want to attract people by building trust. So I've got a fair bit of optimism there. It kind of depends on which hat I am wearing. But I think there's cautious optimism maybe but a but a decent chunk of worry in in some markets.

Ajit: Jen, which is the one country where all your members want to know

more about in terms of governance, the one country everyone wants to know more about emerging markets.

Jen: Within the emerging markets, I would say we have had a massive level of interest in India. It is extremely exciting, but I think we should also acknowledge that what is happening in South Korea at the moment is very exciting to people. There's been huge government change there. But I would say those would be the two that are the top of everybody's list when they get a meeting with me and they want to know what ICGN is up to.

Ajit: I am sure that's music to your ears, Amarjeet! India is front and centre ICGN's membership which controls US\$ 77 trillion dollars of capital! Amarjeet, what is your view of the next 5 years now on governance?

Amarjeet: I think we will keep doing what we have been doing. To answer very simply I will tell you what our approach has been. SEBI's role has been about building a very strong governance architecture that supports market development and also innovation. I mean that is the need of our economy. So we do not want to compromise. But, while we don't want to compromise on risk management, but at the same time our effort is not to come in the way of growth. So it's a very fine balancing act which we have been doing. And as I said, we are very consultative. We engage with industry on a continuous basis. And wherever we are concerned, where we are convinced about the pain points, we've tried to address those as well. So I think this sort of keeping a sharp eye on the risk and particularly the systemic risk and at the same time, you know, facilitating further growth in the market is what we will keep doing. And I am in that sense...I think this has worked well so far... I am optimist going forward as well!

Ajit: That was a wonderful conversation. Many, many thanks for your time, Jen and Amarjeet, more power to you both - and to ICGN and SEBI; and more power to governance. I know that in the mobile telephony world, they celebrate the rapid movement from 1G to 2G to 3G to 4G to 5G. May you have the "G" of "governance" ruling the world very shortly. Thank you very much. Thank you, thank you again.

Jen: Thank you, Ajit.

Amarjeet: Thanks for the discussion.





Will India “Value-Up” The Governance Ladder?

Amar Gill

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Ajit: Thank you, Amar, for joining us on this series about governance and the importance of governance in investing, particularly in nations like India. Amar, you joined Asian Corporate Governance Association (ACGA) in 2023, you were a ACGA council member prior to joining ACGA as Secretary General and have been an advocate for good governance for decades as a council member. Amar, could you describe what ACGA does what you are trying to do in countries like India and around Asia?

Amar: Thank you, Ajit, and thanks very much for inviting me to be part of the series of interviews that you are doing. ACGA was established in 1999. For the people who are our age group, which was the Asian Financial Crisis when all sorts of mis-governance and poor governance across the region became very apparent. The (lack of) oversight by boards and the financial risks that companies and managements were taking, which the boards apparently were not even aware, became significant issues. In Southeast Asia, in Korea and a number of the other markets where there were big devaluations to the currencies as a result of that Asian Financial Crisis, there was a felt need for an organization to represent essentially investors, but others who are also interested in governance issues to pursue better governance in the markets in Asia. And that is our mission. We have a one-line mission on our website. We promote better corporate governance across Asia.

Ajit: Fantastic objective! Give us a bit of colour about your membership base, the number of members you have and their AuM they manage globally and maybe a percentage allocation to Asia, if you have that number with you.

Amar: We have 105 members. About 20% of our members are non-investors because we have the Big 4 audit firms, the CFA Institute, and the Asian Development Bank etc as part of the membership. But 80% of our members are institutional investors. In the institutional investors, we have a mix between the asset managers and asset owners, and it is

roughly 80:20 between asset managers and asset owners. We have large asset owners in the region, including Temasek of Singapore, National Pension Scheme (NPS) of Korea, the Bureau of Labour Funds of Taiwan and other asset owners from this region as well as from Europe. We have Norges Bank as one of our members and from North America we have CalPERS, CalSTRS and a number of pension funds in Canada - and I should also mention some of the superannuation funds in Australia and asset managers.

We have asset managers that take a long-term view in Asia. Some of them are passive asset managers. We can talk about them, and you know their approach. We have BlackRock, we have Vanguard among our members and the more active ones like Fidelity and Schroeders, JPM Asset Management and so on in. In our memberships total AUM, the last we looked at it a couple of years ago was about US\$ 40 trillion. I do not have a figure of how much of that is invested in Asia, you know, so I cannot estimate exactly what that would be.

Ajit: Impressive. I hope they allocate more of the US\$ 40 trillion to Asia over the years as they get more comfortable because of agencies like ACGA. Amar, in the broad Asian governance rankings, where does India stand and has our ranking or rating improved or become worse over the last five to ten years?

Amar: We do the rankings of the corporate governance ecosystem. Not just corporate governance or what companies are doing, but we also look at auditors and audit practices. We look at civil society and media and corporate governance issues. We look at public governance and policy makers direction on corporate governance. Obviously, we look at rules and enforcement of rules by the regulators. And then we look at what investors are doing in the market and what corporates are doing, etc.

We have seven categories in our rating of markets. We have been doing this rating of markets since about 2003, every two years, and the last report we did was at the end of 2023 and the report was published in 2024. We rank twelve markets, including Australia and, in the twelve markets that we cover, India's ranking in 2023 was sixth. Hong Kong moved down from our rankings from the prior report to the 2023 report

on issues of policy direction. That was one of the categories where the Hong Kong score went down and the other is media and civil society where Hong Kong's score went down. And the score of Hong Kong came down to the same level as India and both markets ranked jointly sixth.

In prior years India was I would say middle of the twelve markets and rankings were slightly lower than average to most markets - India has been between seventh and eighth in our rankings. In the last like five to ten years, we have seen certain developments in India such as a more active audit, a regulator, the National Financial Reporting Authority (NFRA). Corporate governance rules have improved over the last 10 years and company disclosures in India are pretty good when you look at it regionally. So those are some of the areas where India scores have moved up and the ranking of India has gone to a joint sixth - just into the upper bracket of our twelve markets.

Ajit: SEBI has done a wonderful job in terms of producing a stewardship code and a BRSR reporting structure. But amongst your members, which countries in Asia, name me two, are the members of ACCA most interested in and why?

Amar: Let me give two aspects to that question. In terms of corporate governance reforms, the two markets that are getting the most attention right now are Japan and then Korea. And it is because both these markets have launched this “value up” style program, which Korea, you know, Korea called that program “Value Up” and they launched it about two years ago. And Japan has something that they call the “Action Programme,” which they launched about three years ago in 2023. And in both these markets, the regulators are placing much greater emphasis on the boards to be thinking about shareholder value and shareholder returns. That corporate governance is not just about compliance; It is not just about tick boxing and box ticking. In fact, the Japan's FSA emphasizes that it is substance rather than form exercise that really needs to be the focus. And the initiatives of these two markets on corporate governance reform - and the greater push that corporate boards need to be thinking about shareholder value - put Japan and Korea ahead of the other markets in terms of the interests of investors on where governance is.

But apart from these two markets, the other two large markets in Asia are obviously China and India. You had a period when China was considered un-investable and I think that did help India with asset allocation for emerging markets and, within Asia, asset allocation shifting from China to India in the last year or so. China has also introduced its version of a “value up” program. They have a very, very long name, the Chinese like titles that are 10 or 11 characters. “Market Value Management” is what they are calling it and they they are introducing that with other elements of SOE (state-owned enterprise) reform - and now there is more interest coming back to China in the last 12 months as well.

India has always been a market that international investors are interested in for the growth opportunities. And the one stand-out for India compared to all other emerging markets - and I believe your firm has also shown this - when you look at how the index performed against GDP growth in most of the markets, there is a gap. There is growth in GDP, but the index does not quite follow the trajectory of the overall economy. In India stock market returns have tracked GDP growth over time quite closely. And because of that, the strong growth opportunity that continues to be there in the Indian stock market – investors are always interested in growth economies - and the discussion is whether they should be overweight or neutral, etc.

Ajit: If you switch a little bit to more detail, what are the three specifics asks or concerns that ACGA would like to see in India? So, it becomes like the ‘Value-Up’ efforts of Korea, Japan, or China? What do you believe India needs to do?

Amar: There are a lot of rules in India and, as you know, the regulators, the Minister of Finance are looking to ease up on some of the overly burdensome rules. It is not about rules really. Following our delegation to India in March 2025 we wrote an open letter to SEBI and NSE and some of the other policy makers and regulators. And that was to give feedback of our delegation on key issues that we were looking for some reform and progress.

One of these was the threshold for shareholders to be able to put a shareholder proposal at an Annual General Meeting or to call for an

Extraordinary General Meeting. The threshold in India is quite high at 10% while in Korea, it's about 0.5%. In most of the other markets in Asia, it is between 1% to 5%. In India is one of the highest and when you take it to account that the official statistics are promoters have about 50% of the overall market. That is the official figures, you know, including other unofficial holdings of associates, it is probably 60%. So, when you need 10% of the free float and the free float may only be 30% or 40%, you need about 25% of the free float to be eligible to put forward a shareholder proposal at an AGM or to call for an EGM. That is a very high threshold, and India is an outlier in that respect. And that is one of the things that we have brought up.

The other is, like a lot of markets in Asia, you have big government controlled companies that that are dominant in the market. In India, you have the PSUs and, unfortunately, there is a bottleneck in getting independent directors nominated and then elected. When we looked at the figures in the first half of last year based on end of 2024, I think it was something like 85% of independent director seats at PSUs were not filled, 85% of independent director positions were empty in the PSUs and that also led to a lack of female diversity on the board. I think about one-third of the PSUs did not have a female director on their board. Addressing this issue of empowering the nomination committee, the NRCs in India to be able to select and nominate the directors rather than waiting for government direction. That is an issue that needs to be looked at so that the PSUs are seen as having credible boards which is an issue right now. The other issue is obviously compensation: what we see is that the compensation and re-election of directors, executive directors are bundled together. Most investors would not prefer that. It should be two separate proposals so that you can vote to re-elect a director, but you may not be happy with the compensation terms as disclosed and you might vote against. Unbundling of compensation with re-election of directors is one issue and the other is to be more transparent on the KPIs for the directors.

There is also an issue where promoters are voting on their own compensation and it is essentially a form of related party transactions, which is another big topic. Whether promoters should abstain from voting on their own compensation is another aspect that we have put forward to regulators as among the things they should be looking at.

Ajit: When you head out to India and you meet founders and CEOs, CFOs, and board members, what is the reception that you get? Are they open to the ideas you have? Do they push back?

Amar: The regulators and corporate representatives we meet are the ones who are interested to hear the views of international directors. There is a kind of “self bias” - the ones that we meet (some of them are among the largest companies in India) seem to be genuinely interested to hear the issues and concerns that investors have. And I would say the professional management at the corporates in India are well trained. They have probably gone to some of the best business schools in the USA, Europe, or the very good management institutes in India. The top corporate professionals who do meet us are receptive and engage in a productive way and it is a very good constructive discussion that we have with most of the time with senior management.

Most founders will avoid meeting us. We do not meet very often with the promoters, including those who have had negative media publicity. We find that the second generation and third generation of a promoter family who are already on the boards have attended good business schools. They understand what investors are interested in. They would like to have their companies perceived as credible companies for international investors. It is generally a very good discussions that we have with the second and third generation in the promoter families.

Indian regulators are also very receptive to feedback, but in the end, they want to see that it makes sense in the local context. And right now, obviously, the national imperative is deregulation, and they are reluctant to tie up the companies too much. And I can understand that, you know, in, in many ways, India has a lot of regulations beyond what you see in most emerging markets. I think the regulators at this point are not looking at more regulations, but they are interested in what we could do to improve the dialogue between investors and corporates and stewardship practices.

Ajit: That is interesting. I mean, I love what you said about the founders that they want to avoid you, they want to duck all the hard questions. But moving on to passive investing: that has gained in popularity over the last

couple of decades, as investors are worried about high-cost active funds. We hear many governance-minded allocators, pension funds, sovereign funds, foundations, family offices have increasingly moved significant amounts of their exposure to Asian markets, emerging markets, and developed markets through passive forms.

Yet when you look at some examples in the US, take Tesla with ESOPs for Elon Musk (ESOP is like a related party transaction) or Mark Zuckerberg of Meta, has super voting rights on shares. At one level, these are all poor governance. At the other end, the CIOs are investing in indices where these companies have a sizeable weight in the USA. Even in the USA, these two companies that I mentioned, Tesla and Meta are over collectively 6% of the S&P 500 Index. In emerging markets like Asia, the indices have probably significantly higher percentage of companies where governance is poor. But because such companies are in a passive index, a governance-oriented allocator has no choice to own them (indirectly) buying them and writing in the annual reports how they love corporate governance.

Could you just talk about that a bit and where ACGA stands in that thought process?

Amar: As I mentioned earlier, we have a few of the large passive investors as our members: BlackRock and Vanguard. Since they are members of ACGA, I do not believe it is just “Oh yeah, we’re members of ACGA and that’s it.” In fact, BlackRock has got one of the largest stewardship teams globally and in Asia. It is also a very credible size stewardship team. And the reason I think is even for the passive investors, the enlightened ones put in the investment in stewardship effort because they realise that long term returns of the bigger companies in particular, but long term returns generally of the market, does depend on good governance, does depend on engaging with management on the drivers for long term performance of companies and their market value.

The thing that the passive investors have on their side is when, when they engage with companies, they can go in and say, look, we’ve had your shares for a long time since you’ve been in the index and we will hold your shares for a long time as long as you’re in the index. And our investment

horizon, the passive managers will say is the same as yours, as yours, as the promoters long term. We are not, investors for the next 3 months, next 6 months, but we are here for the next 3 years, next 10 years. And, and so that allows them to build confidence and trust with management, with the promoters and for their views to be taken seriously.

A number of the passive investors have built quite significant stewardship teams. The one weapon in their toolbox that the passive investors do not have is the right to divest. The passive investors can engage - and they do engage - but they do not have the option of divesting if things are going nowhere and they are getting frustrated. Having said that, a number of these large passive investors will issue vote bulletins, which is a way of naming and shaming when they feel they need to vote against the company - and you can see on record they are voting against. It is a signal as well as indication that they are not in favour of the practices of the company. They can continue to engage because if they just divest, they are out of the picture, and you have no more discussion with the company. I would not rule out that passive investors have a role to play in stewardship and in advancing governance with companies. But the key thing is they need to make the commitment to stewardship. They need to have good stewardship, you know, capacity resourcing on the ground in this region, meeting with management and directors and engaging with these companies on long term shareholder value.

Ajit: We both have been in Asia since the 1990s doing research. I focus on India. You have a broader mandate, a broader geographical mandate. I am trying to think since 1996 when we introduced our Integrity Screen, I'm trying to think of any large company - and we probably have the same names in our head in the Indian context - which actually improved its practices and governance because it's in the index and because passive investors have engaged with them. Honestly, I cannot think of anyone. And you know, like you said, the founders do not even meet you. I really cannot think of anyone.

Amar: So, I am not going to push back too much on that point.

Ajit: I think in theory it is possible and it may work in certain markets. What we have not seen in the Indian context, at least I have not seen it, is

significant changes for betterment of governance in these large companies that comprise the index. I would argue that the better way to do it is to talk to the index providers and have them exclude these companies from the index.

But governance is not a measurement and not a criterion on which indices are built, right? Indices are built on market cap, daily trading, volume, profitability. The more liquid an underlying stock is, the more the index can be replicated – which translates to more fees for the index providers. In the western world, there are a lot of voices and powerful voices that can force change, but in the Indian context, many of these founders are sheltered and friendly with governments. So how does that change in Asia - and specifically India?

Amar: Well, until about 3 years ago, the Russian invasion of Ukraine, until that point, there was a lot of marketing of so called ESG funds. Now you know, we have some issues with the acronym of ESG. The G should not be at the end should be at the at the front.

Ajit: Absolutely.

Amar: That is my short summary on ESG. But those types of funds were performing and outperforming the traditional vanilla indices and traditional vanilla ETFs, and they were getting a lot of inflows, which I think overall is a good thing. Whatever we think of ES and G combined, having the flow into a tilt towards ESG is probably better than no tilt.

Now the Russian invasion of Ukraine scuppered that for the last few years. But these things go in cycle and if, in the medium to long term, the governance aspect takes a bigger weighting in these type of funds, these sustainability and long term value funds, I think there is scope that in the medium to long term, some of these passive-style allocations move to an aspect of quality that places emphasis on governance. And that is kind of the hope going forward for this, for this style of investing.

Ajit: Today the breaking news that an index provider is changing the weight in Indonesia possibly because of free float and you have seen the massive erosion in share prices in Indonesia today. It is kind of interesting that passive indices and index providers have so much hold over a market

or a share price – which impacts the wealth of both sides: the allocators and the founders. And we really hope ACGA will engage with the index providers more to ensure that they do get more governance oriented when constructing their indices. Amar, any closing thoughts as we wind up this wonderful discussion?

Amar: Well, as I was saying earlier on, we have very bright people who are managing and running large and medium sized companies in India. The managers understand what investors are looking for. Essentially for corporate governance discussions to move beyond just compliance, you need more engagements between investors and the company and the boards of the companies. One thing I did not talk about was lead independent directors, the role of independent directors. I think it is quite important that the big companies have lead independent directors who are the point person to be discussing with stewardship teams and asset managers who wish to discuss governance and long-term issues. It is important to have a sort of more holistic approach to corporate governance. This is one of the things to be thinking of going forward, the corporates can do it voluntarily - some of the big corporates; there was a time when Reliance Industries had a lead independent director. The chap retired and I do not think he was replaced as a lead independent director. And I think if more companies have a lead independent director engaging with investors, that would be an important step going forward as well.

Ajit: That is a great point. Many, many thanks, Amar. We all look eagerly for reports that come out of ACGA. My colleagues love the work that you all do, so more power to ACGA. Thank you very much for your time and hope to see you shortly.

Amar: Thank you, Ajit, my pleasure.



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A Better Workforce = Higher Profits?

Katie Fowler

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Chirag: Greetings, Katie! As a Director of Responsible Business at Thomson Reuters Foundation, can you describe what you do, your goals, and what would you like to see achieved because of your efforts and work?

Katie: Thank you so much. What a great introductory question. So, at Thompson Reuters Foundation, we promote free, fair, and informed societies. And of course, this feels like an enormous task in the current world that we are living in. But as a responsible business team, we are very focused on the role of the private sector - one of the most powerful sectors in the world. We have a huge focus on good jobs and fair labour practices worldwide. Again, very ambitious, but we know there are good reasons why we should be working across so many different stakeholders. So, whilst the responsible business team works with investors such as yourselves and companies across the world, we are also engaging with other primary stakeholders such as, as you mentioned, civil society - but also the legal sector.

Thomson Reuters Foundation is home to the world's largest legal pro bono platform called Trust Law. We have access to an enormous number of lawyers across the world who are also stepping into a lot of the rights-based issues with companies. We also have a very large media network. We believe that every single actor in these ecosystems play a huge role in promoting good jobs and fair labour - and we do need to take that systems approach to creating this seismic change. We cannot just look at companies and make them feel that it is their responsibility alone.

You asked what I hoped to achieve because of our efforts and work. Well, it goes beyond a number of companies disclosing to Workforce Disclosure Initiative (WDI), one of our workforce disclosure platforms. It really is about creating an environment where all these different stakeholders can work together and create sustainable and responsible workforce practices. So, ensuring there is an environment where companies feel that they can be

transparent, for example, and that their transparency is going to be met with the right response from their stakeholders, their investors, but also the stakeholders in their value chain. As a key convener across the globe, we have got a very significant role to play in bringing those actors together and driving forward good jobs with rewards for their labour.

Chirag: Fair labour and good jobs to people: the place to concentrate is India's demographic dividend. Low-cost labour often reduces the importance of social pillars to mere compliance with labour laws while social risks, such as underpaid contract workers, unsafe workplaces, rates, theft, occupational hazards, and modern slavery in supply chains remain obscured. How can Indian investors and boards redefine the social pillar, so it moves beyond hygiene compliance to a core driver of governance and long-term value?

Katie: I think, it is important that there is buy-in from the investor community. We all know the enormous challenge that workforce data has in being that prominent data set which investors are going to use. We are home to WDI for the last two years and, prior to that, it was sitting within the responsible investment charity, Share Action. We know the challenges that our investors are facing in really elevating the prominence of workforce data. One of those key questions is the materiality of the information. And it is just so critical that we move beyond this question of, you know, detailed materiality to something that is a lot more fundamental.

Ultimately how can there be an argument to say that social risks do not impact a business when a workforce is one of the largest inputs to any business model? It is quite mind-blowing that we are still sort of battling with this argument about the significance of workforce data (and the reporting standards of WDI) and, therefore, the significance of the business risk and opportunity that it presents. Engagement on these topics, engagement with portfolio companies, helping them to understand how meaningful it is to understand WDI data - it is obviously good for society at large. There are key links between financial performance of companies and the way that they treat their workforce. You know that you must look at the cost of turnover, you must look at the

cost of unresolved grievances. There are just missed opportunities.

I think where organizations are thinking about the effort and the cost of embedding appropriate responsible labour practices and looking at the opportunity for benefits in the long run by making that investment upfront. It has been very refreshing to be working with you over the years that we have because of your very deeply rooted commitment to WDI. And I can talk a little bit more about that, but also in terms of your advocacy amongst your peers in the Indian market. At WDI, which is global, we ensure that there is a approx 27% overlap between the issues that we are raising on our disclosure initiative and India's BRSR reporting, for example. So, the relevance of WDI in the Indian context is extremely high - and that is even before you start talking about an Indian company that is thinking about moving into other geographies. There are a lot of factors to consider in looking at workforce data very seriously as it pertains to financial performance - but as it also pertains to longer term impacts in society and within the business.

Chirag: I agree, Katie. Workforce disclosures have great power to transform behaviour, and good disclosures are just the starting point. To put things in context, precarious workforce arrangements are prominent across many sectors in India. For instance, in the renewable sector, 85 to 90% workers are contractual where they often lack proper safety gear, social security or grievance mechanisms. In the absence of any regulation to safeguard the interest of such pools of labour, are there any proxy governance levers for companies to adopt, beyond counting headcount, to monitor and improve the quality of work for contractual workers?

Katie: So, how can we achieve that real objective? You are touching really on the issue of just transition here as well, because, if we are looking at the renewable sector, we are focused on the impact that we can make to transitioning to a greener economy. And we are completely disregarding the people who are being impacted. And at the same time, there are so many different metrics and levers that we can use beyond headcount to measure that. And as you quite rightly said, many are impacted very negatively in those very sectors. And I think one of the most practical starting points is transparency – for that enables accountability. So, using

a framework like the Workforce Disclosure Initiative (WDI) will allow companies to be able to look at the impact throughout their supply chains from perspectives of diversity and inclusion in the workforce conditions, but also to the investor signatories to assist in analysis and stewardship.

I know that for Indian companies, building transition plans, embedding the WDI initiative can really ensure that just transition is not just a slogan but is actually a measurable outcome that can be baseline monitored and improved as a company continues to disclose through an initiative, which is a standardised and global as the WDI. Because we are addressing issues that go way beyond contractual, baseline contractual issues. We are looking at wage and conditions, we are looking at trainings, access, grievance mechanisms - and reporting progress over time. And that is really very critical.

But I would also want to reference here that reporting and disclosure and transparency alone is not where a company and an investor's responsibility end. It is that sort of social dialogue and community partnership that can drive forward the impact of a just transition. That again reinforces the way that Thomson Reuters Foundation will work on this topic by engaging a lot of different representations within the community but ensuring that we are institutionalising that level of dialogue and participation. And that actually using data sets like those reported in WDI are a basis for conversation. Reporting does not need to be the end point, it is an incredible lever to create dialogue between parties and to shift the dial on preconceptions, on misrepresentations and assumptions that we are all guilty of having – until real, meaningful, dialogue is forged. There is such a huge opportunity. Of course, there is no one silver bullet, but visualizing workforce risk, benchmarking protections and then mapping the road ahead with many stakeholders is such a good way for progress.

Chirag: I completely agree with you on that, Katie. Governance, the starting point could be transparency, good disclosures, and engagement with the right stakeholders, especially investors to, you know, make them understand the journey that you are having. But you know, India is the

prime example of just transition as it is called globally. So, ensuring that jobs lost in industries like coal, thermal power and polluting industries are not replaced by informal low paid work in renewables and new green sectors. What concrete governance mechanism should Indian companies exposed to assets at risk build into their transition plans to make just transition a more measurable outcome, and not just a slogan?

Katie: I think you have touched on such a great point here and, and it is about responsible transition, isn't it? The redeployment of the labour force can be a huge opportunity for change. When we are looking at the practices around labour contracting, for example, moving and mobilising your workforce into a different service sector or production line. You know these are moments in time, they are keys to unlocking shifts and changes because you are having to shift and change anyway. The market is requiring it of you. It is not an excuse; the labour force is shifting into new sectors like renewables, for example, and lots of other different technological based production lines. These are key moments in time.

I quite often look at just transition as this missed opportunity and that we have created this slogan and this brand now because it is something that we did not take care of during the industrial revolution and the evolution of that which occurred across the globe. We are trying to undo wrongs that have been written in to practices for decades. And unfortunately, that is part of the huge challenge: a lot of companies have got into a really embedded norm and there is a cultural acceptance around a lot of practices. This shift as an opportunity, because I always think that change can bring those moments where there is an opportunity to wipe the slate clean in in a way.

Actually, I'd love to talk to you a little bit more about the impact of AI as well, because again, it's when we talk about just transition, I also relate that to the technological revolution that we are undergoing at the moment and the opportunity that we must take now whilst it is evolving and emerging. So that in decades to come, we will not be talking about the missed opportunities that we had to protect workers during this technological transition, as we do, when we talk about just transition in terms of renewable energy. I do think that it is as much of an opportunity

as it is a risk and a problem for organisations who are trying to diversify and obviously for sectors that are seeing huge displacement. From that perspective, a huge opportunity again because we are seeing the emergence of new sectors and they do require regulation that was not implemented as early as it should have been previously. And the rate of change in that sort of regulatory framework perspective is fast now, but there is so much less you can do when you are constantly playing catch up. So, it is getting ahead and looking at these emerging sectors now and trying to implement what is right from the start. We are constantly trying to ensure that our initiatives are keeping up with emerging regulation in the same way because we want to encourage companies to get ahead and, you know, not wait until this is a massive problem knocking at our doors. Just acknowledge and understand the information that you have upfront so that this can be something that you can work in partnership with your stakeholder, in partnership with your investor, over time and map out a road ahead so that we are not paying lip service to a term like “just transition”.

Chirag: No, absolutely. There are many transition risks to be addressed especially for emerging markets like India. Katie, you touched upon BRSR - the Indian sustainability reporting rules. Within that, the value chain reporting requirements are still quite soft. Many companies can remain compliant by disclosing only a fraction of their supply chain or outsourced work. How should frameworks be strengthened so that companies cannot hide social risk? For instance, outsourcing operations to third party agencies or vendors, especially to medium and small enterprises which are integral part of any emerging economy like India.

Katie: So, we have the Carbon Border Adjustment Mechanism (CBAM) reporting coming through. But how can we address this issue? It is such a key point and, as I have mentioned, we do have a huge crossover with acknowledging the BRSR reporting in the Workforce Disclosure Initiative. But you are right, it does not go far enough ultimately. It is also reflective of a lot of regulation that exists globally whereby there are still opportunities for companies to avoid disclosure, hide issues within their supply chain. But we must also recognise that strengthening a value chain visibly does take time - and it takes capacity building. It is not

something that we are going to be able to click our fingers and see overnight.

I am not going to sit here and tell you all the different approaches that I think that the regulation could go further on - that would be disingenuous and I think unrealistic at this point. But certainly, that said frameworks like the Workforce Disclosure Initiative which incorporates a large proportion of crossover with existing BRSR regulation, but also then ask companies to go further. What we would like to do is encourage as many investors as possible that are working in India to endorse frameworks like the Workforce Disclosure Initiative in order to map that movement. Because what we are trying to do is to encourage companies themselves to understand the data. Even before we get to transparency, we must acknowledge that a lot of companies are not holding all that information in one place.

It is quite an effort for a company to unpick their supply chain to understand a lot of the information that we are requesting as part of our WDI framework. And you know, we have seen a lot of companies journey through many years of disclosure to the WDI, some incredible stories of discovery and impact because we are asking those very questions! And it might be that they feel that they can answer about 30% of the questions in the first year that they disclosed to us. The rest they are just unsure about. And five years later, not only are they answering the entire questionnaire, but they are also disclosing, you know, 87% of their disclosure as being entirely transparent to the public. And that is the story here ultimately and that is being driven by investor demand.

Their investors should be standing over them and say, we really want you to be participating in the WDI because we see the value in you understanding your value chain. You know, it's, it is not that today. I mean, obviously an investor wants to understand it as well. They want to understand the risks that exist in a business. Investors who want accountability of companies, they must understand the risks right throughout their value chain. And, and where we cannot rely necessarily on, you know, sovereign states to deploy regulation that might cover the entire value chain, we then look to our investor community to really step

in at that point. That is how the expansion of the workforce disclosure initiative has really been driven through huge ambassadors and endorsements such as yourselves - and our other investor signatories. Because the shareholders are the people that are asking for that scrutiny - and that can be made public as well.

But in the first instance, know your supply chain, it is very simple and yet it is also very complicated. There is regulatory compliance and then there is compliance to your investors. And, if you stand a risk of losing your financing, that is so much more powerful than any kind of regulatory loophole that you might be able to, to skip through. And you know, that is why we see our investors as such an enormous power holder in the system and, and these are people who we think can affect change more so than a sovereign state in many circumstances. There are solutions, they exist. You know, the Workforce Disclosure Initiative (WDI) is one of them. And we do not need to wait for regulation to demand that accountability from companies.

Chirag: I completely agree with your point on WDI as the starting point. We have seen many large allocators of capital, particularly the Dutch and Nordic nations, declare their focus on governance and socially responsible investing in addition to their desire to reduce cost of managing capital. Many have allocated investment capital to passive index investment solutions. Given that many labour-intensive sectors such as energy, utilities, industrials, materials, real estate, which typically have a 30% weight in popular indices in India, and where many companies may not be the best examples of entities that manage the workforce safety well. What are your views on this active encouragement of non-compliance by including such companies in a passive index?

Katie: I think you can imagine what my views are on that because it goes against everything that that we are trying to promote ultimately. And an active encouragement of non-compliance really defeats all the meaning behind our sustainable workforce, planet people. And so, it is obviously not something that we endorse, but it is something of which we are aware. And that really speaks to the way in which Thomson Reuters Foundation is really trying to ensure that we have a very, very embedded

global reach of our initiative.

It is an initiative that was founded by, by the responsible investment charity Share Action in the UK by virtue of its placement and its leverage with every UK and EU focused investor signatory group. And we were very, very fortunate to onboard you as a signatory in 2018, I think very, very early on in the establishment of the Workforce Disclosure Initiative. And, and I cannot understate the critical importance of the diversity of our investor signatory group. It is of huge importance to the lifeblood and sustainability of the initiative of getting to the heart of the regions where, you know, labour rights violations are the worst. And of course, it is also addressing this issue of exporting to some extent of responsibility and this active encouragement of noncompliance. We need to be encouraging participation and active awareness of companies across the globe so that they also have the power, each individual local market has the power to push back because, you know, it is not fair and it is not right. And of course that is what we stand for. But also, you know, it does not speak of the sort of global economy that we are trying to build. As I mentioned, WDI is extremely fortunate to have you as an investor, and we are growing our investor signatory group focused on the emerging economies. We had one of the largest onboarding of emerging economy companies in 2025, of which we are extremely proud. So that it really signals engagement in lots and lots of different sectors and economies, which I think is critical. But it is really disappointing to see that movement and that trend that is happening particularly of the nations who, you know, you hold up as being very, very socially responsible usually.

Chirag: So, yes, absolutely. I hope the allocators who are your signatories, I hope government policy makers who are listening to you – will then take the right steps in the right direction.



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AI: Governing The Algo

AI Company Data Initiative (AICDI)

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Katie: I think it's really important that we're looking at AI governance not on its own as a sort of totally separate issue, but also as an increasingly interlocking issue with, of course, broader ESG issues and metrics, and it's incredibly important we have heard such a compelling case about the importance of AI, governance, the impact, of course, that AI has on our workforce and on our wider society and, all of the different safeguards that we could put in place.

But to bring an investor perspective will be really interesting. So, Chirag, with two decades of experience across asset allocation, sustainable investing, equities, and alternative strategies...

Chirag: Thank you, Katie, and thank you, everyone, for joining us today. I think both the previous speakers said AI is here to stay and, at the same time, governance of AI is extremely important.

The discussion on AI seems very similar to when we were looking at data, regulations surrounding data or use of data increasing. Or be it the early ESG days when, you know, there were disclosures starting to come from companies, and we were trying to make sense of the data.

In the Stanford AI Index, India ranks fourth, and that ranking sounds great, ranking fourth amongst all peer countries. But if you look into details of the score. India's score stands at 25.5 while the leading countries, like, USA has a score of 70, China has 40. At 25, India gets the fourth ranking but stands far lower than what the highest score is – there is a gap between India versus the top global countries out there. Where does this shortfall come from? If you look at the readiness of India when it comes to AI readiness is at 0.36 versus USA, which is the highest at 5.71. Or look at the infrastructure that India has when it comes to adoption of AI, is at 0.6 versus 17 for USA and 10 for China. So overall, this points to the fact that there can be AI operational risk when you're trying to adopt it because there are gaps surrounding governance and safety.

Indian regulators and actuaries have flagged various risks, and these risks

were surrounding cybersecurity, manipulation risk, or disruptive tech volatility. So, there are certainly many risks that India needs to look at when it comes to adoption of AI.

And I think it all starts with governance. When it comes to global AI readiness, India has limited government institutional capability as compared to other countries which have ranked higher than India. There is gap in data infrastructure, we have relatively weaker computing capacity in India, and those challenges are only increasing over time, which leads to our readiness being lower as compared to our counterparts.

When it comes to regulation, which is the next layer. I think EU, with the EU AI Act, has led in terms of regulations, usually EU leads in terms of regulations, and probably this is the most comprehensive AI law that prevails today in the world. So, India also has leapfrogged. We have responsible AI guidelines with us. Which looks at fairness and bias controls, which look at transparency and governance, which looks at testing and monitoring cyber security and deepfake issues. So overall, we do our thinking on those lines. But I think the sooner we implement a policy and a regulation - and enforce it – it will make all the difference when it comes to the policy and regulation because this leads to confidence of investors, this leads to the building of infrastructure and therefore will reduce that risk that we see in AI in India today.

If you were to measure outcome from a risk perspective, it's about the safety incidence. if you look at deepfake fraud is surging in India, because there have been so many instances of deepfake fraud at the corporate level. You need to ensure that corporates have a well-defined policy of undertaking operational transactions, otherwise they will have a mishap.

On Industrial AI accidents, there was a company in Chakan, India where there was a fatality that occurred because of a mishap where they deployed AI. There was a worker in the plant and the sensors built on AI didn't work well, and therefore that fatality took place unfortunately. Governance needs to ensure these incidents do not occur. This will only happen if there is proper testing, proper monitoring, and therefore avoiding these mishaps.

The use of AI in financial markets is also an emerging concern. There's algorithmic manipulation happening. And hence, there has to be safeguards. We have seen SEBI guidelines on that emerging. That is an obligation of the financial intermediary. I think we are leapfrogging on those lines, but it has to be much faster.

The fact that Indian incidents are lower today is only because AI penetration is much lower and not the risk. If we accelerate the pace of AI adoption, there is likelihood of more, far more accidents that can occur. So, one has to assess the AI risk the way one would assess companies on integrity or governance, it should be part of the integrity screening.

Strong governance is the single best predictor of reduced AI downside risk.

I think the adoption of AI Company Data Initiative (AICDI) run by Thomson Reuters Foundation is similar to the benefits from Workforce Disclosure Initiative. Investors like us benefited because it made available a lot of information, quantitative and qualitative, to look at workforce risks in detail and use it in our assessment and in our engagement with companies to ensure that risk over a period of time is well understood.

If there is an unethical use of AI, and if there are biases or unfair outcomes, that could lead to a backlash on the company and that could be a reputational risk for the company and for investors in those companies. There are many risks that we see on the horizon when it comes to AI adoption. It is the onus on the company to showcase that they have strong governance, strong data management, and therefore lower AI risk.

AI adoption should also come with its checks and balances in terms of risks they are looking at – are they undermining critical human judgment involvement. If so, then there can be some repercussions that can be adverse for that company. So, from that standpoint, are they looking at high-stake decisions being reviewed by humans; does the company train employees when it comes to safe AI usage? So, all that becomes very critical and I'm sure these are part of the AICDI survey, which will bring this information out.

If a company is trying to adopt AI, they have to look at various regulations. They need to start disclosing a lot of data, being transparent about how they are using AI. I don't think that undermines their competitive ability, but I think it leads to the company getting the trust of various stakeholders, including investors. To be able to say that they are using AI to their benefit, and they are using AI in a responsible way, that will lead to a differentiation when it comes to that company attracting investors' attention.

Investors should quantify and look at qualitative aspects of the expected cost of AI compliance, risk of fines / litigation, impact on margins of that company, when it comes to automation versus failure risk.

AI is a powerful enabler - but only when governance, transparency, and accountability keep pace with adoption. I think it all boils down to the long-term value that the company is trying to create with AI and how well AI is governed is the key to success.

Katie: Thank you very much, Chirag. That was a completely different perspective on this topic, and the imperative that we have, really, to be looking at AI governance very, very seriously, because there is a lot at stake, particularly in the Indian market. Chirag, I will come to you with a final question before we have to close. Whether you're using (external) ESG data that's generated by AI in your portfolio, and indeed what your expectations are from the data provider.

Chirag: No, we are not using the AI-generated data, but we have been experimenting in terms of extracting a lot of data using AI. Although I think it requires a lot of checks and balances - and the qualitative evaluation of all that data is very critical when you're taking an investment decision. We rely on our analyst teams to look at the data qualitatively and, therefore, see whether the company passes our muster or how it ranks qualitatively v/s other companies in the peer group – including global companies. AI can be a great enabler for us to reduce our work to get the raw data for the Integrity Screen, but we will continue to analyze that company qualitatively with the analysts. AI enables us to reduce our work and allows us to concentrate more on the qualitative factors, and

increase the time we have to engage with companies, as opposed to trying to extract a lot of data which is available easily with the help of AI.

Katie: Fantastic, thank you so much for being so clear about that.



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7

“Physics Doesn’t Listen To Human Arguments”

Jesse Scott

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Chirag: Jesse, your background is one of research, academia and policy making with respect to climate in the EU. Can you describe what you do and what your goal is or what would you like to see achieved as a result of your efforts and work?

Jesse: Well, it's very kind of you to assume that my work might achieve something. The first time we met, I found myself in a room with three Indians who are all knowledgeable and work in the finance sector, and I was definitely the odd one out in that conversation. I think that's how I work. I spent a lot of time trying to understand perspectives on climate of different stakeholders and different governments in order to help with the conversation about which question the governments should consider when they make policies to address climate issues.

I don't work across the whole climate sphere; I am an energy specialist. Energy is about 75% of the greenhouse gas emissions problem and I work mainly on mitigation of emissions and, to some extent, on resilience questions - which is one aspect of adaptation. I worked for about 10 years on the EU domestic policy making processes and I've done that working for businesses and the electricity sector in Europe. I've done that working for think tanks. I've worked as a lawyer and then really since the Paris Agreement I've been working from an international perspective. I'm a European, so I'm asking questions about Europe's role in the world, its contribution, the adequacy of its partnerships with other jurisdictions around the world. And I've said that what we do is try to assist the process of coming up with the right questions. Sometimes that's policy ideas as well. Very often it's a process of consensus building because we're coming to climate to face a challenge none of us has ever faced before, and a challenge which is ultimately non-negotiable.

Climate change is earth-system physics, and physics doesn't listen to human arguments. It doesn't negotiate with human preferences; it doesn't wait while human institutions think about their answers. And this

is an unfamiliar problem for humanity. We're used to a room for negotiations. There's room for negotiation even in wars. There's room for negotiation in any legal conflict. But we are here facing a set of physics outcomes which are transforming the security of our world.

That's a difficult question to bring into an existing set of historic institutions, obviously concerns. One of the major issues is, of course, how urgent climate action is. And many, many governments have a list of urgent problems which they don't see, including climate, even though climate is absolutely interacting with and exacerbating those challenges, whether we're looking at poverty, border security, disease, all of these have serious interactions with climate. One more thing perhaps to say is why am I partly spending some time in India. It's offered the opportunity to spend a couple of years working in India and this is a fantastic chance to see a debate about Europe and its role in the world from another perspective. I don't think, and perhaps we'll come to this theme, that Europe has got good answers yet to what its collaboration with other different jurisdictions around the world should be on climate, particularly beyond the COP process. Because I think it's also important to understand that since the Paris Agreement, we're really on the question of implementation.

The Paris Agreement was a consensus about the problem description and about the goals. But implementation is not something that is done in the UN process. It's done within domestic jurisdictions. It's done through bilateral and multilateral and mini lateral collaborations in the real economy because it's the real economy timelines that we're now trying to deal with. Coming back to my opening. I am currently actually mainly in my job, spending a lot of time listening very hard to Indian actors, stakeholders, senior officials in the Indian government, Indian thinkers, people. Question the Indian finance sector (players) like yourself to understand what the questions are, the priorities, the concerns about what we don't know the answers to seen from India and what might be a set of asks towards the Europeans as partners that I can then help make sense of back in the European sphere. Long answer!

Chirag: Absolutely. What you do is fascinating. I think the world looks towards EU when it comes to the policies that they have created on various aspects of climate. We often hear from people in India, that given India's relatively small contribution to historical global emissions, probably less than 5% of all the GHG floating around in the atmosphere that is sourced from India. So how should the EU balance a desire to see developing countries like India do more to reduce GHG emissions versus the question of why should India pay to clean the mess we are in when we did not cause the problem? India has development priorities, including poverty elevation, population needs, for which India requires access to affordable energy for growth. So why should India sacrifice its needs to compensate for bad outcomes which are largely caused by the OECD nations?

Jesse: I wish it was only a question of history, but it isn't. This is a question of the future, and this is where back to the physics. We are in a changing world, and that changing world poses enormous challenges for prosperity and security anywhere. Also, in mature and relatively wealthy economies like Europe and massively in dynamically growing or a huge country like India, It's also not just a question of history and future, it's also a question of mess and opportunity. Yes, there is an enormous mess, and we are getting deeper into that mess year by year. But it's equally clear that there are green economy opportunities, possibilities around green tech, health benefits in a cleaner environment, which sometimes you start to hear also a fear of missing out on in discussions in policy circles. To ask a question about the past and only about burdens is not really enough of a question.

Certainly, as an investor, you should be looking to the future, and you should certainly be looking for positive opportunities. Put those together and it's still a fair question to say what is the balance of responsibilities? We are in a world where we are seeing increasing extreme weather events. They will have costs. In the world we have today, paying for that challenge would be one aspect of dealing with the historic responsibility challenge. Now here, we're primarily in the adaptation question, which is not really where I work. As we have heard there is no planet B; there is no Plan B – this is absolutely correct. We live on one planet. There are knock on effects in our atmosphere, which we share. There are knock on effects

between our economies which we share, and these are material reasons, quite aside from the moral reasons why Europe, if it wants to live in a reasonably stable, reasonably prosperous, reasonably happy, reasonably fair planet, needs to be concerned to do more beyond only its own borders.

Similarly, take the question in the Indian context. Even if India takes the view that it is not responsible for the rest of the planet's historic mess simply domestically within India, all of the objectives in the sustainable development field that India has are contingent upon addressing climate stability. We run into lots of questions like we talked about global warming, it's the wrong term. We should be talking about climate disruption. Even in a hot country, warming sounds relatively benign, relatively steady. That's not what we're looking at. We are looking at zigzagging extremes and the clear example of this is of course to do with water fragility.

I once heard a very eminent climate economist who had done one of the very early studies on the economic risks of uncontrolled climate change, talking to a group of scientists and policy makers and saying, look, I don't need to repeat my study. I just have one sentence. Climate change is water. Too much, too little, wrong time, wrong place. Think about it. And that is essentially what we are now looking at in terms of agriculture and the value of land. It's what we are looking at in terms of infrastructure security and cost of insurance and cost of project investment. It's what we are now looking at in terms of cities and the functionality of the health of cities. All of these are forward-looking challenges that we face and addressing those forward-looking challenges absolutely has huge moral dimension to it, but it also has a pragmatic dimension. And here fundamentally we are talking about investments in resilient clean assets and where the money for that is going to come from. And I think that's a key part of the rest of our conversation today.

Chirag: Jesse, I hear you on there is no Planet B and disruptive climate is the word that we need to use. And I agree to your point that India's per capita emissions are very, very low today, even as compared to the world averages. Even if the India were to go to world averages or let alone be the

developed world per capita emissions, it could blow a hole to any climate targets we set for ourselves. Right from that standpoint, India cannot work in isolation. It will need technology; it will need capital flows. Do you think the current pace of capital inflows into India are sufficient to meet our renewable power generation targets here by 2030? What does India need to do to facilitate more technology and capital flows?

Jesse: Let me say one more word about Europe. It's put on the table, not specific to India, but back to your previous question, because that takes us into this. Europe at the moment has quite normative and quite generic strategic statements on climate partnership, which I find very disappointing and frustrating. It needs to put its money where its mouth is on all of this, and it really has not to date. Some of that certainly needs to be public money, large sums of public money being spent. Let's be blunt about this outside Europe and we need to face the politics that, but the vast majority will be private finance flows. My understanding is that we would need around US\$ 200 billion of annual spend in India to be on track in the energy transition. We're talking about the energy sectors here and we are at about 25% of that needed spend. We are not on track in terms of spending volumes. That's really only one exhibit of a much bigger problem. Broadly, the global financial system in the order of 500 trillion U.S. dollars, of which about 4% is in emerging markets and 1% is in India. We have a huge order of magnitude mismatch problem that can be expressed as a diplomatic challenge. And if we can get right a partnership between Europe and India, we have a template potentially for partnerships all over the world between where money sits and where the emissions are growing. We are in a deeply inadequate situation today and we fall farther behind year by year. I think let's talk more, a little bit more about Europe and India. I think that's the direction our conversation will probably take us in.

Chirag: Sure. You talked about private finance flows and probably private finance flows will require as a fiduciary some you know strong oversight, governance, etcetera. What do you think are the limitations of simply transplanting EU style governance models into India? How should India's approach differ to reflect its development priorities, energy access needs and the federal structure we have?

Jesse: Climate policy let's call it that, whether it's in the form of finance governance or whether it's in the form of public industrial policy spending, we're doing something new. We are therefore learning by doing and nobody is going to get all this right the first time. There will be things that are developed in India that are very successful that the rest of the world needs to know about. And there are some things that have been developed in Europe that are fairly successful and some things that have been less successful. And that's not surprising because it is a first time and a new process and learning from one another is how we accelerate that somewhere near getting on track. Of course, there are limitations in transplantation.

Climate policy tends to be built out of domestic circumstances, and the domestic circumstances of any jurisdiction vary from another, let alone with the enormous differences between Europe and India. You can't just take a policy, an ESG framework, a carbon border measure, and transplant it into that other jurisdiction and expect it to function. In other words, there is no one-size-fits-all. Take the energy sector. We know what to do in the energy sector. We should deliver energy efficiency first, followed by renewable electricity, followed by the electrification of end uses using that renewable electricity, followed by some indirect electrification green molecules, followed by some carbon removal. That is the same recipe everywhere in the world, but the starting points are different. Our destination is the same, our starting points are different in what we want the government's frameworks to bring us towards. There's probably fairly similar answers around that destination. But in terms of how those instruments set a pace and send signals from where we are today, that's clearly going to look radically different.

Look at the objectives where the clear wins are, use any policy tool that takes you towards that win and be flexible and realistic about frameworks. And then clearly we need conversations between jurisdictions to try to avoid friction between those frameworks because we will not have the replication of a single measure worldwide.

And I'll add one more thing to add to the complexity of this. And this takes us back to your question really about the moral fairness challenge on the

entire agenda. It's not adequate for Europe to decide that it's got the right answer with its carbon market. How can Europe come to a set of arrangements that are flexible enough to work, for example, with India? Clearly, that's not going to be devised sitting at desk in Brussels. We need much more outreach, information sharing, consultation between jurisdictions in climate policy making so that everybody knows what's potentially coming. We can look for these risks of friction, and we can look for areas of convergence. That's quite difficult to do without a lot of goodwill and frankly, a lot of time investment. And here I would put on the table one very simple proposal underlying all of the governance issues that you are hinting at, which is manpower, a critique of Europe. We do not have enough people sitting at desks with "Relations with India" as their job descriptions. We need a lot more manpower, people working on understanding India, listening to India, spending time in India, inviting Indians to Europe and vice versa. If we are to be able to have those kinds of conversations that will help us towards a better understanding information consultation, reasonable interoperability between different preferences.

Chirag: Many large allocators of capital, particularly the Dutch and Nordic nations, declare their focus on governance and socially responsible investing in their desire to reduce costs. Many have allocated investment capital to passive index investment solutions. The weight of energy stocks in various indices varies from 4% to 5% for the MSCI USA Index to 7% to 9% in the MSCI Europe Index - and this is predominantly carbon. What are your views on this active encouragement of non-compliance that we see? By allocating capital to a passive index fund, are you actively violating your claims of following good governance and climate resilient strategies, as many claim in the annual reports?

Jesse: That's a challenging and thought-provoking question. I think you're right. We have at the moment clear problem, which is a mismatch between the index signals, and we need to pay a lot more attention to this problem. Now first and foremost, that should be a challenge to the index creators, who really ought to be finding ways to disaggregate some of the portfolios they are looking at from the perspective of climate risk. And here we're talking about physical risk and transition risks. That's a

challenge to the indices and it's a challenge that it would be very helpful to hear louder and clearer from all the actors who are stakeholders using those indices because it is difficult within a portfolio in most energy companies today, you will see the full range from the conventional technologies that really shouldn't be in the mix any longer through to cutting edge deployments of clean technologies.

That spectrum is a perfectly sensible portfolio management approach seen from the headquarters of any one company. From an investor's point of view, it's making it difficult to be selective towards the clean and future oriented end of that portfolio. That question needs breaking open and I think we've been sort of walking around the edges of it for a couple of years and that's enough. It's time for this conversation to start. How do we do it and what are the challenges? Some of the challenges are ultimately about the granularity of information within portfolios around particular technologies and projects. Some of the technologies are helping us transition. Some of them are fully green. They've been a significant area of work in green and climate bonds around certifications and criteria. We have a framework there, a taxonomy emerging. Some of the problems really have to do with investment advisors who can come as an intermediary. This, I understand is exactly what you do – people need somebody closer to the market with more granularity of knowledge across the sector who can highlight what in fact is ESG-aligned and what is not. And I think we probably need in the end to turn round to governments and say that the taxonomies need to be stronger. The taxonomies need to have links to incentives. Yeah, probably. We're talking tax regimes. I get very frustrated in any policy discussion when tax is not mentioned because it's 50% of the policy tool kit. And if we're not discussing it, then we are, by definition, only addressing half of our opportunities. Either you are moving in a cleaner direction, or you are moving in a more unstable climate risk direction status quo that the “Business as Usual” implies really isn't there and that question needs to be reflected back onto the indices amongst others.

Chirag: The smaller the stock market, the more tempting it is to get a passive exposure at a low cost - and it's easy to execute. In the Indian context, the weight of energy in the MSCI India Index is even higher at

about 12% to 15%. So, if there is an allocator looking at India at this stage, what would be your advice to that allocator be?

Jesse: Well, my advice to them in fact would be to talk and act like you do - because you need to have a look inside that percentage. You need to understand what part of that percentage is simply sitting in a conventional high emitting portfolio, which parts of it have transition plans associated with them, and which parts are adequately meeting a clean taxonomy standard in the Indian context with some global reflection on what that standard needs to be.

All that needs to be broken out for the investor and then the investor needs to go back and talk to the index and say, listen, 15% as a round number is just not adequate and useful to us in making decisions in the Indian market. We've had these conversations, we have these insights, we're working with these experts, and we need you to reflect on delivering some more detail and insight if we're going to be coming to you. You know, there's also a challenge from investors. There must be.

So, I'm going to be optimistic, absolutely. I hope the governments are listening, I hope policy makers are listening, and I hope allocators are listening to the words you said and hope there is more question between India and Europe and we find ways to work together. And I hope both of us can act as catalyst towards achieving that better climate, better future and, and there is a better world for all of us.



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The View From Down Under

Mark Delaney

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Arvind: Mark Delaney is the Chief Investment Officer and the Deputy Chief Executive Officer of Australian Super. Mark also acts as an advisor to the Board and is responsible for the strategic direction and performance of the Funds Innovation Program.

Mark has been with the Australian Super since its Inception which was 1st July 2006. So, a very long and distinguished career. Prior to that Mark had stints with the National Mutual/AXA. He also spent a few years in the Treasury Department as an economist.

Mark is also a Director on the IFM Investor Advisory Board and the Chairman of Pacific Pension Institute (PPI).

Mark, welcome to this discussion and thank you so much for doing this. I think the Australian pensioners, your colleagues, the pensioners at Australian Super, the government and the entire Australian Super fund industry would be grateful to your leadership in investments, and the decisions that you've made and served Australian Super for a very long period.

The role of an allocator in pension funds is challenging. On one hand, you need to match the estimates of future liabilities for retirees or aging population with the returns from the assets currently under management. On the other hand, there is the fiduciary responsibility of ensuring that – while you seek returns on your investments – you need protection of your rights as a minority shareholder. When did this challenge of governance first appear in the pension landscape and how does your institution deal with it?

Mark: Australian Super is a defined contribution plan and probably the world's largest defined contribution plan. And our real objective is to maximise the retirement savings of our vast number of members. And we do that by investing in a way which is sensible with a long-term

perspective.

Corporate governance has always been important for investors and when I became the Investment Manager of the Fund preceding Australian Super, corporate governance was on the radar screen. People who have very long memories might remember the Enron crisis with the falsification of the accounts and investors losing vast amounts of money in the early 2000s.

Corporate governance matters to make sure investor rights are protected and also helps to ensure that companies operate in a super-efficient manner. It is very important to ensure that investors are confident in how their money is being invested and generating strong returns for our members.

Arvind: Over the last decade or so, governance moved from protection of your rights as a minority shareholder to protecting and supporting good behaviour and from a societal perspective. So, the initial focus was on shedding 'sin stocks' such as tobacco, alcohol, gaming. Which then moved to oil and carbon for the environment, and then crept over to promotion of rights of minorities, equal opportunity, discriminating labour practices...has the broad issue of 'governance' now morphed the job of a CIO or allocator in a pension fund from generating returns into an era of being the gatekeeper of society? What are your views on this?

Mark: Very interesting. You are right about saying that corporate governance has changed over the recent period. If I think back to the 25 years I've been involved in corporate governance as an institutional investor and even before that when I was in fund management, it has evolved and continues to evolve over the period. The key change you're referring to occurred around 2010 when pure corporate governance evolved into what is now called ESG, environmental, sustainable environmental, social and governance factors.

As you said, our overarching mission is to maximise the retirement assets of our members and to do that we need to invest with a long-term horizon and take into account both financial and non-financial factors. The evolution of environmental factors and societal factors have an influence

upon the future viability of businesses and narrowly looking at just the financial accounts and the conditions today is poor preparation for having a look at what the business is going to be like in the future.

I think they are very important factors in assessing a business, but they have to be done with the objective of how they increase our members' long-term retirement savings. Hence, I don't think they are in conflict at all as some people say. I think they're entirely consistent and the best example I think was people in around the early 2000s when others were trying to sell coal producing assets, noting climate change was becoming more important than the popular debate. We shied away from those investments because we thought that the long-term outlook for coal was quite poor.

Again, that is a factor in using your investment framework, thinking how it has led to societies changing, you think about the environmental impact and then it is about making the right call. In many ways that's just good investing rather than being something different from good investing.

Arvind: A follow up to that would be if an investor or a corporation or a project or government, if they get governance right, would it then take care of sustainability or society or workforce or environment.

Can we then go back to the earlier aspect of it just being called governance and not being called ESG.

Mark: But you end up doing the same thing and you and you prioritize the same aspects that matter to long term returns and long term sustainability. I just think that an extra focus on governance and other issues have enabled us to pay more attention to them. I think when you go back to those periods, 2010 and before, those factors were under appreciated by investors and probably by boards as well. The fact that they were underappreciated is a reason why they got their extra attention. Now in a perfect world, you may not have needed to do that, but it certainly was effective in changing how things operate.

Arvind: Let me shift the focus to investing through external managers. If you use an external manager, how do you evaluate them on their commitment to 'governance' as they make investment decisions on your behalf?

If an external manager has good performance but poor governance, will you retain them or fire them? Why?

Conversely, if an external manager has average performance but excellent governance, will you retain them or fire them? Why?

Mark: It's a hard one. Investing is about allocating your fiduciaries capital in a way which generates strong returns for them. The companies you invest in themselves are the major allocators of capital. Then the fund managers, because they're the ones who allocate to the companies and then us as the institutions who allocate to the fund manager so that there's a tiering of how capital is allocated in each case. You want to be considering these factors when you do it because they are going to indicate long-term success for those investors because they consider not just conditions today, but how they're going to involve in the future.

When it comes to external managers, for example, if you go right back to the 2000s. External managers used to vote our (proxy) stock rather than Australian Super doing it ourselves. And that was an ownership right which we thought was best held by the end owner, the Super Fund. So, we took those ownership rights back to the front and voted on our stock. Reflecting on the issues with letting our corporate governance principles, it's fair to say that during that time fund managers were inclined to take the voting of stock pretty lightly and also to vote very much always in favor of the management. I think that was the case because that also gave them better access to management to get more information to be able to make their investments. Taking back voting stock was the first thing and then what you really wanted the managers to do and the companies to do, as you said earlier, is to take these issues seriously. And if it was taken seriously in all parts of the capital allocation decision at the fiduciary, at the fund manager and at the company, you know, it's being well handled

through all parts of production trade.

So, to answer your specific question, I don't think it's a tradeoff between good governance and good investment returns. I think there are preconditions to get the same outcome right.

Arvind: Since you spoke about taking back voting rights onto the fund onto your level instead of the manager voting for them. Since the 1990's we have seen the pension world adopt the philosophy of John Bogle, the Founder of Vanguard and the Father of Indexing, and move away from high-cost active managers to low-cost passive funds that replicate an Index. Yet, while pension funds rush to invest in index funds, there is an inherent faith that the companies within an index follow 'good governance'. That is not true for some companies in the USA and more challenging in emerging markets like India - where companies with poor governance are successful, are large, and – by virtue of size - are part of popular indices. How do you deal with that conflict of a stated policy in your annual report that you follow good governance and, yet your investment dollars end up supporting the share price of companies with poor governance because they happen to be in the Index? Do you have a discussion with the Index providers to remove companies with poor governance?

Mark: As you were going through it, I was thinking about Warren Buffett and among the many books I have read on Warren Buffett and he talked about his approach to buying stocks and essentially it really is about can you trust the management?

How do you understand business? And this is a sustainable business model. And I think that those are the key questions for governance. Corporate governance framework is really around putting rules or parameters around this trust on companies. Can you trust them to act as a fiduciary of other people's capital? And that's the essence of it: are they going to act in the best interest of their shareholders, in the best interest of their clients? We ask for the best interest of our members.

I think that responsibility also exists with index holders as well. They are

investing the money. So, with the index holders, given they can't sell stock, it's probably important that they use their might and their right to generate a very strong governance environment which generates the best long-term returns. That is the way they can influence a better outcome for their clients. So, I don't think it is a case of either / or. Well, I don't think it's inconsistent. They just need to focus on what their responsibility is as a fiduciary on behalf of their clients.

Arvind: When you are choosing a benchmark and you're making a passive allocation to that benchmark, although it's an active decision to choose a passive index, but after that you are just replicating the index and in that if you find governance issues, how do you deal with that? Do you divest out of this company?

Mark: I think the key question is that there are many index providers. And so, if you've got an index provider who you don't think is doing a good job of looking after your long-term interest, you'll move to a different index provider.

Arvind: Have there been cases where you're allocating passively to that index and you exercise your proxy voting right against those companies. Does that happen as well?

Mark: Well, I cannot think of any to be honest. And we don't have a very large index exposure and so, we'll look at the issues on their merits and consider what's the best thing to do.

Arvind: Before we close out, if you have any other generic points to make on these issues of governance and in long term investing, we would be happy to hear that.

Mark: So, we expect all our managers to have appropriate ESG policies and implement them, whether they are active or passive and that's part of our selection criteria. So, I don't think there's any distinction between the two of them at all.

The bigger question really is, I think governance has done a really great job over the over the 25-year journey. It's not perfect and will never be perfect. All we need to do is to ensure that through the use of ESG frameworks and corporate governance frameworks, investors and allocators of capital, whether they're the companies, the fund managers or the fiduciaries, do that in a way which maximizes the long-term value creation for each of the people along that journey.

If you have a clear idea of that and ensure that people are taking advantage of, I think that's a really strong sticking point to base your whole governance framework on and when I think about that, it really comes down to trust and acting in those fiduciaries best interests and that's the foundation of all good governance and that's what we look when we invest our members money.

Arvind: That's a great summary to end with Mark, thank you again.

Thank you so much for speaking to us and sharing your views on governance and long-term investing.



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The View From (Below) Sea Level

Eloy Lindeijer

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Ajit: Good morning, I'm delighted to be having a discussion with Eloy Lindejeir. Eloy is currently chairman of the Board of the Global Impact Investment Network, GIIN. He is a veteran of the pension industry veteran, a former central banker, and has served as the CEO of PGGM investment management in the Netherlands. In addition to this vast experience, Eloy is a Non Executive Director on a few boards and foundations.

Eloy, thank you for spending time with us. I wanted to jump into the meat of the matter. As an allocator in your past life, and as someone who's an NED now, when you talk to institutions, when you talk to family offices, when you look at allocations, you have got a bunch of challenges right now in the world. On the one hand, there is the need to have this long-term return. You have to estimate your liabilities for the aging population of pensioners, as someone managing pension money, and while you seek returns and do the asset liability matches and mismatches – there is the need for governance. There is a need to protect the rights of minority shareholders. How do you juxtapose your desire for return with the need to have good governance?

Eloy: Well, Ajit, thank you for having me - and this is a great topic. Good governance is a starting point for good risk management. In that regard, if you're a long-term investor and you are committing capital long-term to companies, either through equity stakes or credit or otherwise, you really want to make sure that these companies are well-run and adhere to good corporate governance principles. And I think you also, as an international investor, want to ensure that good governance standards become more commonplace.

If you look at the Dutch they are very much a reference point as long term investors. The reference point is the way in which capital markets are organized in the Netherlands and Europe, the Dutch corporate governance code, European regulation - that's their starting point, that is the reference point as they invest worldwide.

But obviously, standards will differ. This will depend also on how effective you can be in engaging with companies for matters affecting your stewardship. In different jurisdictions - it's important everywhere - but it might be different in the way you implement it. Generally speaking, the emphasis on stewardship will be much more intense in our local market where we will be effectively organized between the local investors that are dominant in that market. As you go more international, you will work in concert with like-minded peers and try to adhere to global standards in this field.

Ajit: So, if I go back to history and you look at the evolution of how pensions and long-term allocators have begun to think about protection of rights. It began way back when with just "how do I get the rights for my shares as a minority in a company that's listed", or in the case of private, whatever the protection may be. And then it started morphing to society. Tobacco, sin stocks, gaming, alcohol, etc.

Eloy: Yes.

Ajit: And more recently, over the last couple of decades or so, it's further enhanced to protect the environment. Carbon emissions, greenhouse gas, all of that stuff.

Eloy: Yes.

Ajit: It's a challenge! I mean, your main job is to make sure that the pensioners have a good retirement - and now you're given all this burden, if I may use that word, it may be a wrong word - or responsibility is probably a nicer word, depending...

Eloy: Yes. We would not call it a burden. We definitely could not call this a burden. No, no, no, no.

Ajit: Okay, right, I guess it depends on which part of the world you are located in geographically. Some parts of the world it's a burden; some parts it's a responsibility!

Eloy: Yes.

Ajit: So, now you have moved into being a gatekeeper of society. You've suddenly being asked to have a moral conscience about what you do, not only for your returns, for your pensioners who you're directly answerable to, but to society as a whole. What do you think of that?

Eloy: Well, actually, as long-term investors, we did surveys with our millions of members in the Netherlands that were working in the healthcare sector on behalf of the trustees at the PFW pension funds. PGM is a captive investment manager on behalf of PCW and the people working in the healthcare sector have a very strong commitment towards a society which is equitable, which puts an emphasis on good health and financial stability. They also realize that, if you want to make long-term good returns, you have to do that in a stable environment in which we respect planetary boundaries, and that is the basics of stability, not only in a strict, narrow financial sense, but also in a wider societal context.

And this has been a really intense dialogues starting more than two decades ago with the Board of Trustees on how we would elevate these concerns into the investment process; how we will also engage with regulators to change, for instance, the pension law where - at some point, also with a strong lobby from the pension funds, including APG and PGGM, the largest ones in the Netherlands - we got ESG integrated into a fiduciary duty, because we felt we needed to contribute to a systems change.

Good governance is about shareholder rights, but it is also about accountability and transparency. We have been really active in this field, because we felt that it would make us more effective as a long-term investor.

If you look at the ALM process in the traditional defined benefit context in the Netherlands, and of course we're now moving to a new pension system, which is moving away from defined benefits, but still there would be looking at liabilities as far as 160 years forward. So that is six generations, if you think of that multi-generational context, and you don't take on board these broader social concerns, you have to wonder if you are really fulfilling your fiduciary duty towards your members and - in a wider sense - to society. If you look to Dutch corporate law, directors in

companies have a multi-stakeholder responsibility. It's wired into corporate law in the Netherlands, so I think it's very much part of the DNA of the way we want our companies to operate, but also investors.

Ajit: From the developed world where you sit in Europe, would you consider governance to be a luxury compared to, say, an emerging market allocator, or being in emerging markets where companies have to grow because growth is more important than emissions and the good principles and governance? That's always a question you come across in Asia and Latin America.

Eloy: Yes. I totally agree. So, I mean, this is an evolutionary model, let's say that. Well, if you look at some of the governance issues in emerging markets - and clearly a lot of the large pension funds in the Netherlands also invest in emerging markets - you have the problem of less transparency, slow courts, not the ability to take class actions, dominant shareholders... There is, I mean, you have got to recognize that this is reality. This does not mean that the investors from, let's say, the Netherlands will not be active in these markets, but they will be less ambitious to be drivers of systems change, because they feel that should be the primary responsibility of the big local players. And the government. So, you got to know your place, but you still want to harvest let's say the beta returns which are available on a global level. It doesn't mean you don't participate in these markets at all, but you will be a different type of participant than you would be in your local market.

You have to be realistic in terms... you also have to be humble. I mean, people are not... there may be certain limits, at some point... I remember an experience in India. We were engaging with a company that was creating a lot of environmental damage in their business model, and we had a feeling we were going nowhere with this engagement, so we exited the company.

That has to do with your value set, the values that you adhere to. As a long-term investor, we thought this company, although it did very well for a very long time, and then its stock market, then its shares totally crashed at some point.

We exited that firm 10 years before that happened because we felt that the business practices were not in line with the basic value set of what we were trying, the way we were trying to invest. I think that's very important - this alignment of values in the way you invest. It's true for the external managers, it's true for the internal teams.

It requires a different way of working, and ultimately leads to a different selection of stocks and credits because, over time, it changes the way you invest. It's a gradual process, because you have to learn by doing this. To take up what you said about external managers, so of course, pensions in the Dutch system and across Europe and the world, they do hire external managers.

Ajit: And when you hire external managers, how do you evaluate whether that manager is following governance practices or not. Firstly, do you care? How would you evaluate that?

Eloy: So first of all, they do care, and they have always cared - but I think there is much more emphasis these days on alignment of principles; the way you work. For instance, if the very large captive pension asset managers in the Netherlands, I would say, roughly about 50% is managed externally and 50% is managed internally.

The large ones such as APG and PGGM have moved to a much more concentrated universe of stocks. Over the last 10 years, moving from owning thousands of stocks in listed markets to basically doing enhanced indexing in addition to more active strategies in less liquid markets, moving to a system where they internally construct their benchmarks, moving to less than 100 corporates locally, less than 1,000 corporates worldwide. Companies which they feel are more aligned with their own values and are still convinced that they can harvest the better returns that are required to make good on the pension liabilities through this manner, but you have a more mission-aligned investment process. So, when I joined PGM, we invested in well over 7,000 companies.

Ajit: Wow. That's the entire world.

Eloy: Yes and now in their newly published investment policies on listed equities, they are going under 1,000. And it's the same for APG. They have

different approaches. PGM is more bottom-up, is more systematic in the way they construct this benchmark and also select their equities, but I think there's been major change and external managers are used to diversify and manage risk. But the external managers are also increasingly required to support the investment beliefs and the research priorities of the pools of pension capital. So, in the case of PGM, for instance, since the announcement of their new latest total portfolio approach towards Investing, they actually let go of a lot of their external managers and moved to ones that were more aligned to their current belief set. So, it has had a very material impact on the managers they work with.

Ajit: A very quick question on that. When you gauge the performance of an external manager, let's assume they have good performance in terms of numbers and returns, but not so good governance. Will the pension fund retain that manager, or fire the manager? Quick answer.

Eloy: Oh, absolutely, no, they will absolutely fire the manager. No question about it.

Ajit: So, conversely, it may or may not be true, and that's a question to you, again, if a manager has not-so-great returns, decent returns but not great returns, but very good governance. Now what do you do? Fire them or keep them?

Eloy: No, you would still let them go, because of course you have to look at these returns not in a very short-term perspective. These mandates, which are long-term focus - usually the review term would be somewhere between 5 and 7 years but, after 7 years, if there were still very substantial underperformance, you would have to definitely let that manager go.

Ajit: Got it! I used to manage a Vanguard fund years ago, so I kind of know what happened when Vanguard became big, because passive investing took off. John Bogle, the Founder of Vanguard and the Father of Indexing, championed the cause of passive investing - and rightfully so - there were many active managers who were not giving the alpha that the client needed, just charging high fees.

Eloy: Yes.

Ajit: Much of the world, much of the pension world has moved towards passive investing, indexing. But I think the challenge is that when you have that, like in the USA for example, there are companies... Meta has super voting power for their main founder, Zuckerberg. Tesla has an ESOP for their founder which...

Eloy: Yes.

Ajit: People do not always like what some companies do in terms of governance, but these companies are significant portions of global indices or local market indices. Given that, how do pensions deal with that conflict? Rightfully, they need to find a low-cost way to invest, which is passive, but then – conversely - an index is not necessarily designed to use governance as a criterion. If you are an Index provider, you want liquidity and market cap and trading volume...

Eloy: I totally agree – absolutely! I totally agree with you. If you look at the approaches that have been taken. For instance, over 15 years ago the likes of PGM, but also other responsible investors in the Netherlands, felt there were huge gaps in availability of good data on ESG-related risks - and also opportunities. So that was a trigger for us to provide seed capital to a company such as Sustainalytics, and we were also a major client of theirs - and I believe PGM still is even after they were sold to Morningstar.

You know, by filling in these gaps in data, you are trying to improve your ability to act as a long-term investor that integrates these – basically - these dual materiality concerns. But you also run into limitations, because if you initially track, for example, the FTSE whole world or the MSCI, which has thousands of stocks in it and your screen based on this data that has become available to you from providers such as MSCI, Sustainalytics, then you start excluding stocks that don't meet your minimum requirements.

You increasingly discover that the index does not really meet your requirements as a long-term investor because you want to have much more knowledge of the companies that you actually own. If you want to effectively be a steward, a long-term steward, and engage with management on important issues. So, then you have to go to a more concentrated portfolio.

And there have been huge discussions with boards of, within boards of trustees in the Netherlands, on how far to go. You know, and this has taken almost a decade to get more and more consensus on this, and increasingly we see consensus to go to more concentrated portfolios of companies that you know why you own. And this requires, you know, far-reaching investments in internal teams that monitor these companies and the managers you select have to be aligned with these principles - and you have to really invest in data.

So, not only in external service providers, but in data scientists, into platforms, into AI. The whole investment process is being reinvented, also because of AI and the availability of massive amounts of data which can be incorporated into your investment process these days. A lot has changed. A lot is changing also.

It really is a multi-year journey so, for instance, at PGM they've announced that basically the goals they've set now for 2030 in terms of 3D investing, you know, they raised the bar on what they call an impact investment, which I think is very well, I think it is a very good development. You need to have a clear intentionality to be able to call something an impact investment, a clear theory of change. So, while in the past they had investments... when I was there, we had so-called investing in solutions portfolio, which grew from EUR 4 billion to EUR 20 billion.

We didn't call it impact, we called it basically outcome-based investing - and then we moved to SDG-aligned investments and building taxonomies. All of that has further developed into, I think, a much more rigorous approach. It took years to develop, and I think my successors did a really good job on that in terms of defining ways of measuring the SDG alignment in the portfolio, the Paris alignment in the portfolio, which companies just meet minimum requirements.

Most of the portfolios are stocks that meet our minimum requirements in terms of responsibility. And then we tried to overlay this with Paris alignment SDGs, but then we said, these are not impact investments. These are just aligned investments with certain outcomes.

In addition to that, they survey members - and in the case of PCW, they

don't attach AUM targets to that anymore, which I think is also very good. It's more disciplined to say, look, with these impact investments, we're trying to achieve this and that. So, we are trying to achieve so much avoided emissions. We're trying to avoid these and these impacts. On healthcare. We are trying to advance biodiversity in the world which we invest in. That's probably the most difficult topic.

And we would want to do something in the local economy, which really makes a difference for our members. But you have to be very rigorous in terms of how you measure it. And what you promise, you have to publish a theory of change underlying that. And I think it's a great thing that they were willing to adhere. Basically, the GIIN standards for impact investing to avoid confusion in the market. In the Netherlands, both APG and PGM have clearly said, when it comes to impact investing, we look at the way in which this is internationally approached through the GIIN network.

Ajit: But you're still buying the S&P index. When I say you, I mean the allocators across Europe and the pension system. They're still buying a passive index like the S&P 500.

Eloy: Well, the most are. I think the leading ones in the Netherlands don't anymore. They really have moved back from that.

Ajit: When you were there, and I don't know what the current practice is across in the Dutch system and the European system, have you all ever tried to reach out to the index providers and say, the Meta and the Tesla, as current examples, should not be there in the Index?

that... is there a way to come up with an index without these stocks? Is there a way to come up with an index that...

Eloy: Yes. There has been a little bit different approach. So, APG actually publishes its so-called... they have... they use... they used to work with MSCI, basically, as... the reference point, but they have moved to, to basically referencing, the A Stocks World A Index. You know, the components and also the active shares, so the most... the one which APG has also published, which is called the World Responsible Low Carbon and SDI Index, has an active share, about 20... about almost 30%.

vis-a-vis the iStock World A. And, um, you know, it has a very substantially higher alignment with Paris, and with the SDGs. But that's a very systematic way of approaching it, using the index as the starting point

PGM is taking a much more bottom-up approach, but it is also coming close, interestingly enough, to under 1,000 stocks in the global portfolio for equities. You also have credits, so you have extra names on the credit side, you have extra diversification through private markets. Both of these funds have about 35% is invested in private markets, so where they have much more control through direct deals and through manager selection and the way in which governance is implemented, and how which priorities are set.

Ajit: So, so from where you sit, as a member of boards, foundations, as the chair of the board of GIIN, and given your vast experience. Looking out for the next 10 years. Where do you think the world is going? More towards governance, or less towards governance?

Eloy: So, I don't really like to say governance that much. In this sense, I consider good governance as a starting point to do all of these things. So, I think it should be a minimum bar for the companies you invest in. They should be subject to good governance, and ideally, they should be operating in an ecosystem that promotes that, too. But let's be realistic, very often that's not the case. So, you look at the integrity of the leaders of the company, the internal governance systems, and then you will be sympathetic to markets that are moving in a good direction, right? And some markets you might not want to be invested because you just feel that the whole regulatory context is just far from good enough... But, I hope that we move to a world where I really like this concept of 3D investing where you elevate ESG integration to the same level as your traditional risk and return considerations - because as a pension fund, you need a certain return to make good on your liabilities, but you don't necessarily need a 20% return to make good on your liabilities, right? You don't always have to go.

Ajit: It'll be nice to have that return of 20%, but not required.

Eloy: It'd be nice, but it's usually part of the portfolio where you take the

It's more disciplined to say, look, with these impact investments, we're trying to achieve this and that. So, we are trying to achieve so much avoided emissions. We're trying to avoid these and these impacts. On healthcare. We are trying to advance biodiversity in the world which we invest in. That's probably the most difficult topic.

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biggest, you know, kind of risk, like venture or early-stage private equity. It should be part of your portfolio, but most pension funds in the Netherlands need, you know, somewhere between 4% and 5% to make good on what is effectively the liability stream.

Ajit: 4% or 5% in Euro.

Eloy: Yes, in Euro. So, of course, if you take currency risk, you'd have to translate that back and all that. And exposure in emerging markets is a very important part of that. Although you do see that in some emerging markets, you know, there is just it's much more difficult to get the same level of transparency, understanding of your holdings, and otherwise it's the case. So, there you would work through specialized managers with good local knowledge, and you will probably be much more selective about what you're doing.

And in many cases, you do get the exposure to these markets through companies that you do know better, right? So, so it's... but I strongly believe that these long-term investors should collaborate with each other to advance better market standards. It is also a responsibility for the system as a whole. I would hope to see that long-term investors in, for instance, the Netherlands would be reaching out more in the future to their peers in countries like India, in Africa, where there's a whole community of long-term investors.

Pension funds in Africa manage over half a trillion dollars in assets, you know, to exchange best standards, to work together on deals, to advance local market standards. I think that would be a great thing.

And I think, to the extent that Dutch pension funds are massively underinvested in places like India and Africa. There's a great opportunity for collaboration there. As they collaborated in their home markets, hopefully they will move towards more intense collaboration across these markets in the future.

Ajit: So, there's a phrase in Hindi, which is, and I'll say that in Hindi and I'll translate it, which is basically, literally means, may your words have the sweetness in them. So, which means that what you say hopefully will

come true. Thank you very, very much for those words, and may the pensions in Europe increase their weight to emerging markets, and may they work, as you correctly pointed out.

Eloy: Yes, let's hope so, yes. Yes.

Ajit: with their partners in these other parts of the world, and teach them and learn from them on how to effectively enhance governance. And the broader set, like you spoke about carbon and everything else, environmental.

Eloy: Yeah.

Ajit: In all these markets. That would be very helpful. So, thank you, Eloy. Thank you very much for your time.

Eloy: Yes. Well, thank you for inviting me. Yes, and great to see you again.

Ajit: I hope to see you very soon, Eloy. Thank you.



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A (Family) Office With A View

Yuelin T. Yang

Nitasha: Yuelin, you have a distinguished background of managing your own Family Office, a must-hear speaker at many Family Office forums, and a member of the Board of Asian Corporate Governance Association, ACGA. From your well-travelled perch, how important is “governance” and protection of rights of minority shareholders in Family Offices? Is governance an important factor in allocating capital?

Yuelin: Around two thirds of publicly listed companies in Asia are family controlled or have a family as a major shareholder. For institutional investors investing in Asia, protection of minority shareholders is at the top of the list. This issue and governance in general feature prominently in the “value-up” programs being implemented since 2024 by an increasing number of Asian countries. Hopefully there will be a race to the top to enhance governance as the bourses battle for international capital.

A family office as an investor has fewer stakeholders - the members of the family as opposed to a public pension fund - who often are managing the family office. This allows them to move with speed. If they prioritize short term trades, then minority shareholder protection might be less emphasized. At the same time, they do not have the same in-house resources as an institutional investor to research and actively engage on governance issues. In such cases, they can outsource to managers who are selected based on their ability to screen for governance issues.

Nitasha: From your experience as an investor, which corporate governance red flags are likely to precede long-term capital erosion – as opposed to resulting in short-term volatility?

Yuelin: Controlling shareholders have plus points of alignment between ownership and management; own money and reputation at stake; financially conservative; founders' entrepreneurial culture, if it still remains; long term view; speed of decision making and adaptability. Note that many of these will be even more important and are an advantage to ride out future volatility.

Having said that, instead of the vertical issue of principal-agent between management and dispersed shareholders in widely held companies, companies with controlling shareholders have the horizontal issue

between controlling and minority shareholders. As such, red flags include - related party transactions, too many family members on the board or in management, imperial founder (double edged sword balanced versus entrepreneurial vision and drive), weak or non-independent board, poor succession planning.

Nitasha: During global shocks—whether financial, geopolitical, or regulatory have you seen governance quality act as a true differentiator in capital preservation for a business and for the investors in that business?

Yuelin: In short, governance will be a big differentiator in the future. Past shocks were not like the "rupture" now and were cushioned by monetary and fiscal policy. Governments have much more debt now and less ability to cushion future shocks. We will be on our own more. Warren Buffett said when the tide goes out, we will see who has swimming trunks on.

A rising tide had lifted many boats in the past. Reagan, Thatcher and Jack Welch in the 1980s set the stage for neoliberal market capitalism. Since the fall of the USSR, it has been a relatively smooth ride with strong tailwinds (low inflation, peace dividend, favourable demographics, the internet, globalization, China joining WTO) until 2008. Imbalances were building up in part due to winner takes all capitalism or globalization without guardrails – which has resulted in inequality, government debt, social welfare costs, China manufacturing 1/3 of the world's goods, north-south, etc. These imbalances led to insecurities of people and the rise of populism.

In Davos, Canadian Prime Minister Mark Carney said what many had in their minds as to the rules based international order. "Fiction of reality" and a "useful fiction".

Boards had been more focused on internal controls and compliance post Enron, Worldcom and 2008 global financial crisis. Going forward, it will be more like surfing than a track meet with its rules like the rules-based order. Waves are unpredictable, unknown unknowns like geopolitics.

The boards will need to practice "BOARDS" - Bold (decisions, e.g. stay or divest), Over (the long term), Adaptability, Resilience (strategic not just operational), Diverse (views particularly as to government policy and geopolitics) and Scenario (planning).

Business models will need to adapt. We are in an interregnum period post Pax Americana to (back to) a future many are saying will be like the 19th century spheres of influence. I would add to that a layer of some key differences and additional factors today. "CIA" - climate, interdependence and AI. Much of the future will depend on how and the pace that interdependence (trade, supply chains, security, financial system, technology platforms, resources, capital flows) is unwound, diversified or hedged as economic warfare becomes more prevalent.

This will be haphazard depending on actions often of middle countries. EU recently announced trade deals with India and Mercosur. Structurally, fragmentation in trade has spillover effect to supply chains, FDI flows, technology platforms, capital flows (financial nationalism) and monetary systems (de-dollarization).

We must pay attention to "GAUGE" - Government intervention is increasing, Affordability (underlying populism), USA, Geopolitics (where nationality of companies will matter more and more), Economic security (no longer just about cost and efficiency).

Regional and family businesses will have advantages in a fragmenting world. Financially conservative, concentrated ownership means more alignment, long term, adaptability and home field advantage.

Multinationals rose during this period benefiting from the 5 S's - scale (which now presents geopolitical risk), supply chains (that were global but are now being regionalized for resilience), scattered shareholders (access global capital but how to align them for the long term), spread (to new markets with trade liberalization) and standardize (products and services but now face increasing competition from local products).

As individuals, whether as board members or management, we have enjoyed complacency of Thomas Friedman's "The World is Flat" and Francis Fukuyama's "End of History". We do not have the resilience of our parents or grandparents who endured world wars, civil wars, Cold War 1. We have only seen the good times.

Nitasha: There seems to be, and correct me if I am wrong, an accelerating desire for Family Offices to chase returns and get into "the next new

thing". Does this mean that they are ignoring governance factors when evaluating VC-type, or private, or pre-IPO investments?

Yuelin: There is definitely an entrepreneurial element of many family offices. Sometimes the opportunities are sourced through the next gen and other times what they hear from their friends. There is a balance to be struck between governance and "gut" feeling. A couple of key areas. Within the overall investment mandate, have a clear allocation including a sleeve for these VC, private and pre-IPO ones. Then, access the relevant expertise to do due diligence. If the opportunity is adjacent to the core business, which often is the case, then there should be in house expertise. Otherwise, there will be a need to use external resources instead of the mentality of "I know best".

Nitasha: How does a family office investor like you assess "board effectiveness" rather than just board composition when conducting due diligence?

Yuelin: While family offices have advantages of speed, they often do not have sufficient scale to have all resources in house. To assess boards, beyond that in public filings, may require outsourcing to managers who not only have more access to the companies but also are able to compare across companies.

Nitasha: Given your long history of investing and observing others who invest, do you believe governance engagement—active ownership, voting, informal influence—creates measurable alpha for patient capital like family offices? Why or why not?

Yuelin: In more normal times, governance is important. Like adjusting the sail to catch the best wind. Going forward, in a fragmenting world resulting in economic nationalism, setting the direction of sailing will be as if not more important. Specifically, geographical allocation will contribute even more to alpha. While the USA has had the benefit of TINA (there is no alternative), if there is a shift out of US dollar, whether due to US federal fiscal situation or a reaction to US policies, this will impact the US stock market which has 20-30% foreign ownership.

Family offices are investing closer to home, in gold and other real assets.

Family offices located in countries with big domestic markets will benefit as they can leverage their local roots and patience to engage in active ownership, voting, informal influence. They are well positioned to align with government industrial and other policies to invest in domestic champions and corporate patriotism.



Challenges Of An Independent Director

Ajay Nanavati

The following text highlights the points in our discussion and is edited for ease of reading.

The video can be watched in its entirety via the QR code below.

Subbu: Good morning, Ajay. You have a fantastic background, and we are glad that you are joining this series of discussions on corporate governance. Given your long experience in the context of you being the Managing Director of Birla 3M when they first set up in India, what was your experience, particularly from the governance point of view? You are now a very active independent board member on different companies. If you can explain to us what governance means to you and maybe elaborate on that.

Ajay: Thank you, Subbu, Pleasure to be on this conversation. As you know, this is a subject near and dear to my heart. I have spent many years analysing this aspect of corporate governance. Governance is made to sound as a very complex and very sophisticated subject and people try to make it sound as if it is very difficult to quantify, or it is very subjective, etcetera, etcetera. But to me governance, at its core, is simple.

There are four pillars of governance as I see it. One is transparency, second is accountability, third is responsibility and fourth - and most important - is fairness. In the Indian context, I have noticed that governance is perceived more as a compliance exercise, the assumption being that if I am compliant, I am well governed. So, it is a tick-the-box exercise. In reality, however, governance begins where compliance ends. The bar for governance is far higher than for merely being compliant, which is just a regulatory requirement. This is how I define governance from my learnings over the last couple of decades in the corporate world, especially in listed companies.

Subbu: So that is interesting when you said “governance begins where compliance ends,” in a larger context, how do you define the role of an independent director? What are directors supposed to look at - apart from understanding the business and the needs of the business? What are the steps directors can take to, as you said, be fair to all stakeholders and to strive towards a benchmark that is a lot more than being compliant?

Ajay: Independent directors play an absolutely crucial role. They are the glue that binds it all together and they are the custodians of the fiduciary responsibility. In the Indian context, as you know, most listed companies are largely promoter or founder led and ownership is very concentrated, which is quite different from the western world where ownership is typically very dispersed. In that context, because there is this dominant promoter founder role in India, the role of the independent director becomes even more critical. The independent directors must really demonstrate that they are looking after the broader interests of all stakeholders beyond just looking after the interest of the promoter or the founder. They have to have the interest of the company at heart - and they have the interest of all stakeholders at heart.

Independent directors are expected to demonstrate impartial judgment, the keyword being impartial of a strategic advice, ensure that the company is compliant (with rules and regulations) and, importantly, they must provide management oversight. They are the intermediary between the management and the owners or the promoters. But, unfortunately, in the Indian context, independent directors are rarely independent, both in letter and spirit. I have spoken a lot about this and, in my mind, there are many reasons why that is the case. On one hand, there is a feeling that we, as independent directors, are beholden to the promoter for having invited us to join this board and therefore we need to look up to the founder, be compliant, be respectful of them.

There is a cultural element to it that independent directors do not feel they are entitled to dissent. And I always believe that dissent is at the core. And when I say dissent, I do not mean dissenting for the sake of dissenting. I am saying voicing an opinion, voicing a view. So, I think independent directors have much to answer for and need to be held accountable for any of the malfeasance that we are seeing. They have a crucial role in ensuring the companies operates in a well governed way.

Subbu: As an independent director, in the context of the existence of different stakeholders such as employees and minority shareholders, do the various stakeholders engage with the independent directors? Did you ever have an experience of engaging with an institutional investor or an employee of a company on which you were on the Board of?

Ajay: Unfortunately, in my own experience, I was not approached by external institutional investors for my opinion on the workings of the company. Recently, I have noticed that some of the proxy institutional advisory firms do reach out to the independent directors to get to their perspective and to solicit their views. But broadly, I have personally not encountered institutional investors reaching out to me as an independent director to seek my insights on this. There are some early signs that, as I said, especially in the proxy institutional advisory context, that they do, in fact, tap into the independent director community.

Now as far as the employees are concerned, it is absolutely imperative that independent directors spend time engaging with the employees the next level down. Typically, in board meetings, what we get is the filtered view, which is filtered through the CFO, CEO, or the CXs. For example, when I was chairman of Syndicate Bank, the minute I joined, I made it a point to sit down one on one for an hour, with every general manager in the bank to understand their pain, to understand where they are coming from, to listen to their concerns, to get the unfiltered voice of the employee.

This is something I do on every board that I sit on in the capacity of an independent director – meet with the next level below the CEO to get the pulse and to understand the culture of the company. I think it is absolutely important that independent directors spend time engaging with employees which also helps in the area of succession planning because, unless I know what the bench strength is, the pipeline of leadership that we have within the company, it is very difficult to groom the next level of leaders. It is important that independent directors engage with the broader organization.

When Chairman of Syndicate Bank, I used to visit the bank branches whenever I was travelling to talk to the branch managers. Even on another company, in Alicorn (CHECK), I visit the factories, I visit the plants, I talk to the employees. I want to get the sense of what is the company culture.

Subbu: I wish we have more independent directors engaging with all stakeholders. As you rightly pointed out, there is an institutional

framework of proxy advisors trying to engage with Boards. If this picks up further there could be more engagement and more knowledge sharing which happens now in the context of the independent board members itself. How are they evaluated? Do they evaluate on their own? Do the promoters evaluate? I know it is a subject which you like to speak about. Maybe you can share your thoughts about board evaluation?

Ajay: You have hit a very crucial area of corporate governance. I strongly believe that just like we apprise senior management, similarly the boards need to be regularly evaluated and their performance evaluated. In fact, ironically, there was a recently a study done by PWC that said that almost 55% of directors themselves feel that one of their peer colleagues should be replaced and even 93% of management feels that at least one director needs to be removed.

So, one of the best practices that I read about and recently encountered with my friend Harsh Mariwala when I met him last week in BOM at his office, he said, “Ajay, in our company, we even encourage senior management to evaluate the board. So not only do the boards evaluate themselves, but we ask the senior management to evaluate their boards. There is a cultural aspect to it. In India, one very rarely does not like to say anything ill about their colleagues or their peers. And, therefore, it is a little bit of ‘you scratch my back, I scratch your back’ exercise. I do not say anything negative about you. You do not say anything negative about me. The best practice is to get an external agency. There are some companies who have started using external agencies rather than have the boards evaluate themselves which is like asking the senior management to appraise themselves. I am a strong believer that independent, unbiased evaluations of boards must be carried out not from the perspective of trying to find fault, but from the perspective of finding opportunities for improvement.

It is not an exercise to poke a hole in somebody or to find errors, but really to say, “Listen, this is the areas where we are weak, let's work on improving them.” As in the corporate world when we do appraisals for executives and managers, we have an individual development plan, IDP, which is often used after 360-degree feedback from a self improvement perspective, not

from a trying to rundown anybody. Board evaluations must be done, and the results of the board evaluation should be transparently shared, which is again, very rarely done. We evaluated the board; what were the findings? what were the takeaways? I think there needs to be some transparency.

Subbu: That is very insightful. Similar to your concerns, we as investors do not know whether the boards are really being effective - because some of these evaluations are not shared with the investors per se. Which brings me back to another question, from the world of investments.

Now in the in the investment world over the past many years, lot of investments, lot of capital has been allocated to what we call “passive investing”, where an investor does not want to take an active call on whether the company is good or bad, they want to buy the index. And, many times, we have seen that some of these indices are not well formed.

In fact, I recollect John Bogle – the Founder of Vanguard and the Father of Indexing, himself saying that in India the indices are poorly constructed and therefore passive investing in India is “plain foolish.” What is your experience in this? Have you noticed that the indices have companies which are not known for corporate governance? Do investors therefore need to relook at their strategy?

Ajay: Subbu, you know, one of the things that I often talk about when I give my talks on corporate governance is if you look at the composition of the BSE-30 Index as a case in point, just using that as one example. If you look at the composition of the BSE-30 Index over the last 30 years, you will find that today only about 8 of those 30 companies are still on the index. With the evolution of time, many companies have disappeared. Some of these companies do not even exist today. This applies to the NSE-50 Index as well. Many of them, in my opinion, have failed the smell test from governance perspective and have therefore been taken out of the indices. I do not believe that adequate attention is currently paid to that aspect, because too many investors are very short-term focused and they are looking to make a quick buck. And the fact is that governance is a long game. It is a marathon. It is not a sprint. I look back at my own company, 3M, which is a company that has been around for 125 years. How many

companies do you know today that are that have been around for that long? So, I think longevity of corporations, the de-risking of your investment portfolio, it is particularly important that governance becomes one of the extremely critical criteria to de-risk your investment and to ensure the company continues as a sustainable enterprise.

Sustainable, not in the sense of an ESG, but sustainable in terms of long-lasting and being there for extended durations. I have seen this lack of governance even in the IPOs and the startup ecosystem. But certainly, I think it's really important that the regulators and the entities that create these indices pay more attention to the quality of the company that is included in the index rather than it's just it's financial performance or its size or its growth because those are all outcomes of good governance. And so, I strongly believe that investors, institutional international investors who are looking to invest in India should pay more attention to this. Unfortunately, I do not believe they do currently again, because there is a short-sighted view on it. But I genuinely believe they should be paying more attention to what are the constituents of the indices.

Subbu: That is true. We find that even in the indices made by international bodies, governance filters may not be rigorous – even if they are applied.

Ajay: Exactly. It is important, it is imperative, that the investors pay some attention to what are the companies that are included in this index before they put their money into these passive funds.

Subbu: Thank you, Ajay. That was extremely useful. We really appreciate the fact that we always can engage with you, and this was very insightful discussion on the definition of governance, board roles and evaluation, and index construction. I look forward to interacting with you more in the future.

Ajay: Thank you, Subbu, pleasure talking to you.



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Epilogue:

Ajit Dayal

We are at a fork in history – yet again.

There is nothing unusual or unique about standing at a crossroad and choosing where to step next. We have been here many times before and, while Mark Twain correctly pointed out “history does not repeat itself, but it often rhymes”, the background music to this rhyme is not pretty. It sounds ominous.

Large pools of capital managed by Sovereign Wealth Funds (SWFs) and pension funds continue to have the dual role of seeking returns and evaluating risks. In addition to dealing with the uncertain economic and investment climate within a rapidly eroding “rules-based world order” that evolved after World War 2, asset allocators have to worry about the impact their investments have on supporting ‘bad actors’. With social media intensely surfacing vast pools of data, images of long-term capital in partnership with dictators, pedophiles, corrupt politicians, or oligarchs who own governments and bribe their way to success are frowned upon.

Since John Bogle, the founder of Vanguard and the Father of Indexing, pointed out the advantages of low-cost index-investing, passive investment strategies worldwide have seen AuM surge from a few billion dollars in 1990 to US\$ 5.5 trillion. In a world where active managers charged high fees with little to show in terms of ‘outperformance’ over a benchmark index, the pendulum swung sharply away towards passive investing.

But, in the process, have allocators made some unintended bets? Even in the very limited focus of protection of rights of minority shareholders how sure are investors in an index fund or in an ETF that the selection of the underlying entities by an index provider are on grounds that meet the criteria of an allocator – versus the objective of the index provider to select stocks that are (i) large in market cap, (ii) are liquid, and (iii) have high free float? For the index provider the need to have as much capital as possible invested in the underlying stocks is key. The more money invested in the index, the higher the revenues for the provider of the index.

While systems of governance are generally more robust in the US, Canadian, and European stock markets when allocators venture to other

investment destinations, chances are they will take on additional risk. Indices in high-growth GDP countries like India need to be scrutinized for the potential of hidden underlying risk. While institutions such as ICGN, ACGA, Thomson Reuters Foundation, and other agencies in the EU are guiding the narrative and discussion around good practices, governance and the assessment of risk, the blind allocation to an index may lay waste to all that effort.

Many allocators have paraded the paths to the offices of active managers multiple times, but few have ventured to take the path to meet the index providers whose products guide trillions of dollars invested in passive index investment strategies. This is a road that more allocators will venture on as they seek to discover whether the spirit and practice on the crucial subject of governance – so dear to so many - is reflected in the portfolio of their passive, low-cost index allocation to India and to judge for themselves whether John Bogle was correct when he declared that a passive indexing strategy in India “sounds just plain foolish”.

The Road Not Taken

By Robert Frost

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair,
And having perhaps the better claim,
Because it was grassy and wanted wear;
Though as for that the passing there
Had worn them really about the same,

And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads on to way,
I doubted if I should ever come back.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.



Investment strategies to address climate change in India; 2021

Background

Investment Idea to kickstart a better climate future

Even if the Western world meets Paris Accord targets, India's growing economy could offset all that could be gained. How can India address its risks without sacrificing growth?

India needs both capital and solutions. NOW!

The Challenge: Climate-targeted investment in India will help the world kickstart a better climate future.

India Impact Challenge was created for student teams around the world to devise plausible investment strategies in India that will facilitate equitable growth, while limiting greenhouse gas emissions. The investment strategies can range from ESG integration to impact investing to blended finance, incorporating public and private capital.

Why India: India's growing population and desire for economic growth makes climate-friendly investment a must.

People: As noted in the Washington Post article, "Can India chart a low-carbon future? The world might depend on it.", India is currently the second most populous nation and, according to the United Nations, India is expected to surpass China as the world's most populous country around 2027.

Economic Growth and Opportunity: Increased economic growth, energy demand, urbanization and the need to address agricultural practices could lead to major increases in emissions. However, this also provides enormous opportunity for investment in more climate-friendly growth in India, which will help world-wide efforts to limit global warming to less than 2 degrees Celsius above pre-industrial levels (preferably below 1.5 degrees Celsius).

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Interviews & Discussions

We explore perspectives on India's climate challenge and risks



Climate Change Impact

Discussion with the Founder of Climate Trends and CarbonCopy, Aarti Khosla, on the impact of climate change on India's economy and public opinion.



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Ecology & Environmental Risk

Exploring the inextricable links between ecology and economy in this discussion with environmental activist and Founder of Sanctuary Nature Foundation, Bittu Sahgal.



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Air Pollution

Jyoti Pande Lavakare, co-founder of Care For Air and a journalist and author speaks to Arvind Chari, on the causes, risks and policies that impact India's air quality.



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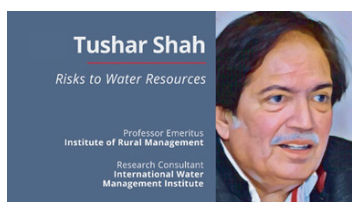


Social Impact

Mirai Chatterjee, Director of Social Security at India's Self-Employed Women's Association (SEWA) discusses the important role grassroots social organisations and cooperatives have on tackling issues of climate change and social inequity.



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Risks to Water Resources

Tushar Shah, Professor Emeritus of Institute of Rural Management and Research Consultant to International Water Management Institute talks about India's water resources and the impact of climate change and policy on water management in the country.



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Pay It Forward Fellowship;
A Dedication To Professor Jack
Behrman

THE “PAY IT FORWARD” FELLOWSHIP at UNC KENAN-FLAGLER BUSINESS SCHOOL (Text written by Professor Jack Behrman)

The purpose of sponsoring this Fellowship is to honor the career of Jack N. Behrman, the Luther Hodges Professor of International Business and Ethics at University of North Carolina at Chapel Hill by giving a student from India the opportunity to carry on the pursuit of peace and prosperity in the global economy and society.

Progress in globalization is best achieved through capitalism and democracy, but both require strong and understanding leadership. An MBA at UNC can provide such a capability for the dedicated student. The challenges are multiple and require a lifetime of diligent efforts.

Not the least of the challenges is the lack of understanding of the requisites for successful pursuit of both Capitalism and Democracy. The rejection or lack of adoption of each in many countries reflects the absence of good models in any major country of the world. Existing systems of Capitalism and Democracy are corrupted by misunderstanding and willful violation of the fundamentals by both, institutions and individuals. It will take a deep understanding of the fundamentals of Capitalism and Democracy and a strong persuasion to bring forth the necessary corrections both within the prevailing economic systems and within individual behavior. Understanding begins with knowledge of the foundations of both Capitalism and Democracy.

Democracy begins with a Common Interest in pursuit of Agreed Goals which all should have an opportunity to contribute towards. The goals have historically been National Wealth and Power. But recently greater attention has been given to personal wealth and power. This misguided pursuit of the “Self” is the principle cause of corruption for, in the origins of neither Capitalism nor Democracy, was the Individual ever placed over the country as a whole. Rather, individual rights and capabilities were strengthened to achieve the national objectives. Where the relationship is reversed, the people eventually seek greater participation in decision making and sharing in prosperity to right the imbalances.

The fundamentals of Capitalism, as proffered by Adam Smith in the Wealth

of Nations (1776), say nothing about maximizing income for an individual or a company; rather, all income is to be earned according to a contribution to society, and any “profit” that accrues besides this contribution should be taxed away as a “windfall” or due to an unwarranted “monopoly.”

Justice, Progress, and Equity in Classical Capitalism arose from the following six “institutions,” or patterns of behavior:

1. ECONOMIC MOTIVATION: a recognition that people would pursue their own interest first, centered on economic gain. Yet, this drive needed to be channeled and curbed, through the other five practices.
2. PRIVATE PROPERTY: people were seen to work best with their own property, rather than that of a landlord.
3. PRIVATE ENTERPRISE: individuals should collaborate in their endeavors if they so wished to expand their contribution to society and enhance their income.
4. FREE MARKET: decisions to buy or sell produce or services should be made in markets that were not unbalanced by interference of power or misinformation.
5. OPEN COMPETITION: all eager to enter a market with goods or services should have the opportunity to offer to buy or sell in open competition with all others, with full information available – undistorted and no duress.
6. GOVERNMENT REGULATION: recognizing the propensity of players in the market to seek an (unwarranted) advantage, the government had to set rules and assure they were followed – such as anti-trust, patents, truth in advertising, in lending, in packaging, etc.

The mere enumeration of these institutions points to the myriad ways in which they are violated. One of the most damaging was the introduction of the limited-liability corporation, which removed individual liability and accountability from protection of investors and the public. The unethical practices of corporations - driven solely by monetary objectives – have resulted in severe global economic and social shocks, most recently seen in the Global Financial Crisis. In its place society must encourage a pattern of highly ethical and legal behavior that makes corporations – and their

managements - responsible to society at large.

As A. D. Shroff, pre-independent India's representative to Bretton Woods, noted in 1959:

"I conclude with an humble appeal to all my countrymen to realize what glorious future lies before us if only we could cling passionately to democratic values, allow the fullest scope to individual initiative and enterprise, recognize the dignity and worth of (each) individual and place trust in him and reading the signs on the wall give a decent burial to socialism, communism and other collectivist manifestations of a bygone era, and thus bring about through democracy and free enterprise within socially desirable state regulations an era of plenty, of prosperity, of freedom and social justice."

Only by the establishment of these patterns of fair behavior can Capitalism be the preferred choice of a more integrated global economy. Only those who understand – and are able and willing to lead – can help to right the injustices in the global economy. This is a role to which a fulfilling career can be dedicated.

As a recipient of the Professor Jack Behrman "Pay it Forward" India Fellowship we hope that you will contribute to a better world for all within the true framework of Capitalism and Democracy.

With a dual objective of honoring the career of Jack N. Behrman, the Luther Hodges Professor of International Business and Ethics, and encouraging future generations of Indian business leaders to focus on ethical practices: The Jack Behrman "Pay It Forward" India Fellowship Award.

The "Pay it Forward" nature of the Fellowship reflects our hope that the recipient of this Fellowship will, one day – but certainly 10 years after the receiving this Fellowship! – be in a position to fund this Fellowship for future generations of business leaders and inculcate the importance of ethical behavior in the DNA of the companies with which they are affiliated.

We hope that beneficiaries of the "Pay it Forward" Fellowships can help build great businesses for the greater good of society.



Profiles of Speakers and Contributors



Jen Sisson

Jen is the CEO of the International Corporate Governance Network (ICGN). Led by investors responsible for assets worth over \$US 90 trillion, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation. Jen represents

ICGN on the Japanese Financial Services Agency's Council of Experts and on the International Forum of Independent Audit Regulators stakeholder working group.

Jen joined ICGN from Goldman Sachs Asset Management where she was EMEA Head of Stewardship, overseeing voting, engagement, and industry collaboration activities in the region. Previously she led policy outreach for the UK Financial Reporting Council (FRC), on ESG, audit and reporting matters including the creation of the 2020 UK Stewardship Code and the 2018 UK Corporate Governance Code. Jen started her career at PwC.

Jen holds a BA in Business, Accounting and Finance from the University of Newcastle and a Masters in Sustainability Leadership from the University of Cambridge.'



Amarjeet Singh

Mr. Amarjeet Singh, is presently the Whole-time Member at Securities and Exchange Board of India (SEBI). With a career spanning nearly 3 decades with SEBI, he has extensive experience in development, regulation and supervision of securities markets.

Mr. Singh has been instrumental in introducing SEBI's reforms in both primary and secondary securities markets including areas of Initial Public Offerings, Corporate Governance, Stewardship, Financing Reporting, T+1 Settlement and Risk Management. He has led SEBI's engagements on sustainability reporting in recent years and also the conceptualization and formation of Social Stock Exchange and its related ecosystem in India.

Mr. Singh is currently a member on the Board of the International Ethics Standards Board for Accountants (IESBA). He has represented SEBI on numerous Committees set up by Reserve Bank of India and Government of India. He was a part-time member on the Board of the National Financial Reporting Authority (2019-2022) and on the Board of Governors of the Indian Institute of Corporate Affairs (2019-2023), set up by the Ministry of Corporate Affairs. He has also served on the Board of the National Institute of Securities Market.

Mr. Singh has been involved in various international regulatory initiatives, including that of International Organization of Securities Commissions (IOSCO). He has acted as Sherpa for SEBI's representation on the Board of IOSCO. As former Chair of the Assessment Committee of IOSCO (2016-2018) and member of its various policy committees since 2010, he has steered thematic assessments at the global level and contributed to the evolution of IOSCO Principles and Standards.

Apart from an MBA, Mr. Singh holds a Master's degree in Economic Policy Management from Columbia University, NY, USA. He is a recipient of the Rotary Foundation Educational Award, 2000 for promoting leadership development and international understanding by Rotary International, USA and of the Joint Japan – World Bank Graduate Scholarship Award, 2001 – 02.

Outside work, Jen is a volunteer for MyBigCareer, a charity focused on advancing higher educational opportunities for young people from disadvantaged backgrounds.



Amar Gill

Amar Gill joined ACGA in 2023 and is the Secretary General of ACGA. He is responsible for directing research, advocacy and educational work in 12 Asia-Pacific markets, as well as for overall management of the association.

Amar has been a passionate advocate of good governance in the region for over 20 years, and was an ACGA council member from 2005 to 2008. From 1995 to 2018, he was with CLSA, a Hong Kong-based regional securities company, where he was responsible for thematic research. Amar was coauthor of the CLSA-ACGA CG Watch reports from 2001 to 2014. He won equity research awards from publications including Asiamoney, Euromoney and Institutional Investor, and rose to become Head of Asia Research. Before joining CLSA, he held positions at Chemical Bank in Singapore as well as Southern Bank and Rashid Hussain Berhad in Malaysia.

Amar joined BlackRock in 2018. He was Head of Investment Stewardship for APAC, leading its regional stewardship team, overseeing engagement and voting in the region. In 2023, Amar led the team that produced a report entitled Board Independence in Asia Pacific: A stewardship perspective, highlighting the significant governance issues in markets characterized by dominant controlled companies. He has been a member of the Hong Kong Securities and Futures Commission's Public Shareholder Group since 2020.

Amar graduated with a first class degree in philosophy, politics and economics, and completed a master's thesis in ethics at Oxford University, UK.



Katie Fowler

Katie is the Director of Responsible Business at Thomson Reuters Foundation working with companies, investors, lawyers, and civil society leaders to foster more responsible business practices pertaining to their human capital. Katie oversees TRF's corporate data platforms; the Workforce Disclosure Initiative (WDI), one of the world's leading

programmes aimed at improving corporate transparency and accountability on workforce issues, and the AI Company Data Initiative (AICDI), a first of its kind data framework which maps corporate adoption to drive transparency and promote responsible AI governance and practice. Katie also drives the strategy around TRF's portfolio of programming which includes Labour Rights, Digital Rights and Just Transition in global supply chains.

Prior to joining Thomson Reuters Foundation, Katie was Chief Executive of The Social Innovation Partnership, a social enterprise that supports local government, philanthropists and companies to deepen their social impact through participatory research, user-led design and systems innovation. Katie previously spent a decade in the child rights INGO sector and has also managed extensive portfolios of public health consultancy for the UN, World Health Organisation and numerous global foundations across the global south.



Jesse Scott

Jesse is an internationally recognised expert in policy making on climate and energy transition. She is currently a Senior Fellow at the Observer Research Foundation in India, a Senior Fellow at the European University Institute School of Transnational Governance in Italy, an Adjunct Professor at the Hertie School in Germany, and serves as an advisor to

international organisations, national governments, and major philanthropies. Jesse's previous roles include International Director at thinktank Agora Energiewende in Berlin, the International Energy Agency COP21 and WEO teams, Head of Environment at business association Eurelectric, and founding head of the Brussels office of thinktank E3G. Early in her career Jesse worked as a lawyer. She is a member of the Climate Strategies network and guest teaches for NYU Law and Johns Hopkins SAIS. Jesse studied at Cambridge University and the European University Institute. She writes an occasional Substack @Climate Conversations.



Mark Delaney, CFA

Mark Delaney was appointed Chief Investment Officer and Deputy CEO of AustralianSuper in July 2006 after the ARF and STA merger.

Mark has the formidable responsibility of investing currently over AUD \$410 billion of member's retirement savings.

He has expanded AustralianSuper's in-house investment management capabilities combining this with external advisers to continue to deliver top quartile investment returns.

Mark has over 20 years' experience in financial markets. He was previously the CEO of STA and prior to that the Head of Investments at STA. Mark has also held senior positions with AXA and Federal Treasury. He holds a Bachelor of Economics (Honours) and is a Chartered Financial Analyst.

Mark is a Director of IFM Investor Advisory Board.

He was appointed as Chair of the Pacific Pension & Investment Institute (PPI) on 1 March 2023.



Eloy Lindeijer

Eloy Lindeijer is a pension industry veteran and a former Dutch central banker. He served as Chief of Investment Management and a member of the Executive Committee at PGGM, overseeing investments of one of Europe's largest pension funds (PFZW) from 2011-2020.

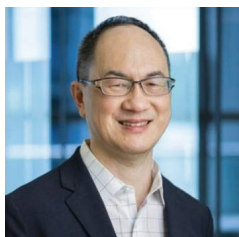
During Eloy's tenure PGGM Investment Management delivered superior investment returns by internalizing private market capabilities, leveraging strategic partnerships and pushing boundaries as a responsible investor. He has since taken on variety of roles.

Eloy chairs the Board of the Global Impact Investing Network (GIIN), chairs the Supervisory Board of Ahlström Invest (family office) and is a trustee of the Van Leer Group Foundation. In the area of pension investing, Eloy is an independent non-executive director of the Wisayah Investment Company and member of the board investment and risk committees of the Hassana Investment Company.

Prior to PGGM, Eloy was director of Financial markets at the De Nederlandsche Bank, the Dutch central bank. He was responsible for the execution of monetary policy operations, reserves management, market intelligence and risk management.

During his career Eloy participated in various of high level committees of the European Central Bank, the Bank for International Settlements and the Financial Stability Board. He was a member of the TCFD, the FSB's Task Force on Climate-related Financial Disclosures and member of the High Level Forum on Capital Markets Union, an advisory body to the European Commission. In recent years he has acted an advisor to AustralianSuper, Hillhouse Investment Management, the & Green Fund and as a temporary special advisor to the Netherlands Council for the Environment and Infrastructure, an advisory body to the Dutch Government and Parliament.

Eloy studied business administration at Nyenrode University and international relations at SAIS Europe, the School of Advanced International Studies of the Johns Hopkins University.



Yuelin T. Yang

Yuelin is widely respected for his influential global networks of relationships with decisionmakers across corporate, sustainability, family business, family office, and institutional investment sectors.

Currently, Yuelin manages a portfolio of board and advisory roles at (a) the Pacific Pension & Investment Institute and (b) the Asian Corporate Governance Association, whose investor members manage \$25 trillion and \$40 trillion, respectively, (c) Verlinvest Asia, the family office of a Belgian AB InBev shareholder family, (d) NUS Business School's Centre of Governance & Sustainability and (e) The 1990 Institute, a leading US-China think tank.

Earlier, Yuelin practiced intellectual property law in Silicon Valley for nine years at leading law firms and as Associate General Counsel at Acer Computers, reporting directly to founder Stan Shih. In 1995, he transitioned to Asia to join his late uncle's family business.

Privileged to be situated at the intersection of institutional and family capital, investors and corporates, family and widely held companies, and East-West, Yuelin values diverse views and is sought after for his perspectives.

Keynote at Wee Cho Yaw 2025 Business Forum in April:
<https://www.youtube.com/watch?v=ah3vjh4LWzo&t=3s>

Resident in Singapore since 1998, Yuelin was born and raised in the USA. He received his BS in Industrial Engineering at Stanford and his JD at Stanford Law School.



Ajay Nanavati

Ajay is a seasoned global executive with 35+ years of multi-country, cross-functional experience. He started his career with the Tata Group and joined 3M in India in 1988 as its first employee. He was responsible for forming the JV & building the organization from scratch. In the subsequent 28 years with 3M he held positions of increasing responsibility in different parts of the world. In 1993, he relocated to Singapore to manage the APAC region for the telecom business. He moved to divisional Headquarter in Austin, Texas in 1998 where he led the launch of a major new services diversification initiative for the corporation as well as integration of a large French/German acquisition. He spent the subsequent 4 years at corporate HQ in St. Paul, MN in senior strategy & new business development roles including identifying & leading the acquisition & integration of a new-to-the-company technology venture.

In 2005, he moved to Israel as Managing Director of 3M Israel. He returned to India in 2008 as the first Indian MD of 3M's only public company outside the US. During this 5 year stint the company's revenues doubled, market cap quadrupled, a major R&D center was set up and local manufacturing ramped up. He is currently on the board of Alicon Ltd. Additionally, he is an active innovation evangelist on various forums, mentors start-ups/SME's and is an angel investor. He is the co-chair of the CII Directors Guild on corporate governance, a member of the CII Start-up council, Advisory Board of International Institute of Information Technology (IIITB) & Advisory Board of Israel Center, IIMB. Mr. Nanavati holds a degree in Chemical Engineering from Virginia Tech., USA.

Our eternal gratitude and thanks for all your guidance:

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...and to our conscience keepers Murali, Ketav and Malay and their colleagues in Legal & Compliance who safeguard the moral compass.

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