

Spark Fund Advisors¹ Stewardship Code

¹Spark Fund Advisors refers to Spark Fund Advisors LLP

Introduction

Spark Fund Advisors LLP (“SFALLP”) is the Investment Manager (the “Manager”) of Spark Alpha Fund 1 (the “Fund”), a Category III AIF (SEBI registration no: IN/AIF3/17-18/0331).

SEBI vide its circular ref.: CIR/CFD/CMD1/168/2019 dated 24th December 2019 has mandated all AIFs to formulate a Stewardship Code based on six principles laid down by SEBI. The main focus areas include: (i) how AIFs discharge their stewardship responsibilities (ii) how they manage their conflicts of interest (iii) how they monitor the progress of the investee companies (iv) how they intervene with the investee company and where required collaborate with other institutional investors and (v) disclosing a clear policy on voting (vi) periodically report their stewardship activities.

The policies (the “Policy(ies)”) documented in this Stewardship Code of SFALLP (the “Code”) articulate the approach of SFALLP towards its stewardship activities and how SFALLP complies with each of the principles and, where applicable, explains its reasons for taking a different approach.

This Code has been approved by the Designated Partners (“DP”) of the Manager and members of its Investment Team (the “Team”) will be guided by the principles and policies of the Code in discharging their roles. The Team is authorised to carry out amendments to this Code, which will need to be ratified by the DPs of Manager. In line with the SEBI requirements, this Code is being disclosed on our website (www.sparkfund.in) and amendments, if any, to this Code shall also be updated on our website.

This Code is effective from July 1, 2020.

About the Fund

The Fund has a tenure of five years and has a close-ended structure. It endeavours to adopt a buy-and hold-approach to its investments and has deployed capital predominantly in the small- and mid-cap segments of the market. The Fund, which was launched in January 2018 and whose investment phase ended in December 2019, is set to conclude by December 2022.

Given the small-sized nature of the fund, holdings in investee companies are not meaningful, as a percentage of their total equity outstanding; the investing style is passive, as opposed to an active one that emphasizes value creation by engaging continuously with company management. Additionally, the Fund does not have the ability to recycle capital and monies realised from sale of securities in the post-investment phase will have to be distributed to unitholders.

1. Policy on Discharge of Stewardship Responsibilities

This section of the Code aims to identify the modes adopted by the Manager to monitor and engage with investee companies with the intent of improving their equity value for the benefit of end clients.

The Manager primarily monitors key areas of all investee companies such as its quarterly/annual financial performance, its dividend payout policy, the transparency in its disclosures and its fairness towards minority-shareholder interests, among others.

The Manager engages with investee companies through meetings with company managements in broker-organised events, attending conference calls organised by brokers/the investee company, and by voting in a fashion that is aligned to the best interest of underlying investors, while being transparent in reporting such decisions.

The Manager may also engage with external agencies as it goes about discharging its responsibility under the Code. Even under such a situation, the ultimate responsibility for action will lie with the Manager.

2. Policy on Managing Conflicts of Interest

As part of a group that has interests in multiple businesses, the Manager acknowledges that there may be scope for potential conflicts to arise but will always consider its fiduciary responsibilities with the aim of acting in the best interests of all of its clients. The Manager conforms to its internal policy on conflicts of interest, reviewed annually, while an indicative list of such conflicts is also outlined and shared with our clients under the relevant section of our private placement memorandum.

Where clients' interests may vary from each other, the Team shall give due consideration to the objective of treating customers fairly as being central to their decision making.

Roles of other functions and those of the Team are clearly segregated and where necessary, *Chinese Walls* are maintained. Matters on conflict of interest may be referred to the DPs of the Manager where deemed necessary and based on the decision of the DPs, the conflicted employee may be recused from making a decision in such cases.

All members of the Team will consciously attempt to steer clear of conflict and should a case of conflict materialise, the same shall be resolved in a manner that is equitable, by acting in good faith and placing the interests of the Fund and its investors ahead of that of the Manager.

3. Policy on Monitoring Investee Companies

The Manager will constantly monitor its investee companies to ensure that its investment objectives are met. Areas that will be tracked will include, but not limited to: quarterly/annual financial performance, its dividend payout policy, transparency in its disclosures and its fairness in dealing with interests of minority shareholders. To understand these aspects better, the Manager may also engage the services of external consultants, apart from also relying on reports published by rating agencies, sell-side outfits and media outlets.

Based on the percentage of investment in an investee company, the Team may determine the scope and level of monitoring that may be warranted.

The Manager has adopted a detailed policy on insider trading, which it shall adhere to at all times while performing its duties under this Code.

4. Policy on Intervention in Investee Companies and Collaboration with other Institutional Investors

The Manager will endeavour to flag off and raise any concerns it may have on any of the areas outlined above by bringing it to the attention of the executives at the investee companies concerned, either through one-to-one meetings/calls with them or during end-of-quarter conference calls organised by management. The extent and manner of the intervention shall also be a function of the materiality of the investment made by the Manager.

However, should managements be unresponsive to the Manager's repeated requests to contact them with the intention of having a constructive dialogue, the latter shall seek recourse to available options to escalate the matter as is deemed appropriate.

The Manager shall also be open to the idea of collaborating with other institutional investors if it believes that the weight of collective ownership will provide the heft needed to get access to key people within an investee company's management. However, even in instances of such a collaboration, the Manager shall independently highlight its concerns and its actions should not be construed as aligning with those of other members of the collective.

The Manager shall record and assess the outcome of such interventions and take appropriate actions in the interest of its clients, as it may deem fit.

5. Policy on Voting and Disclosure of Voting Decisions

The Manager will endeavour to vote on all proposals being put forth by its investee companies, subject to the following two considerations:

- If, in the assessment of the Team, the matter is a routine one that is not detrimental to the interests of its clients, the Manager may abstain from casting its vote
- If the Fund has an economic interest in an investee company that is not in excess of 0.5% of its equity outstanding, the Manager may abstain from casting its vote, unless, if in the assessment of the Team, there are proposals that are seen as being detrimental to minority-shareholder interest, which warrant voting action

In all cases under which votes are cast, the overarching determinant of the approach to take will be to adopt a position that best suits the interests of the Fund's investors. The Manager may also rely on inputs from shareholder advisory firms before exercising its vote.

Depending on feasibility and options provided by the investee company, the Manager may choose to vote through either e-voting mechanism or by physically attending meetings.

The Team shall, to the best of its abilities and in the interest of the clients, assess the proposal, take a decision on voting and record the rationale for the same.

The guidelines mentioned herein on conflict of interest and as disclosed in the private placement memorandum shall be given due regard at the time of casting votes.

Voting decisions, if and when exercised, will be disclosed annually to all the investors of the Fund.

6. Policy on Disclosure and Reporting of Stewardship Activities

This Code will be available on our website and any changes effected to it shall also be updated on the website.

Disclosures on votes cast on resolutions proposed by investee companies and a report on the Manager's compliance with the principles of the Code will be circulated annually to the Fund's investors within 120 days from the conclusion of the financial year.