



ENVIRONMENTAL SOCIAL AND  
GOVERNANCE MANAGEMENT SYSTEM  
FOR

***TAMIL NADU SHELTER FUND***

ESGMS POLICY AND FRAMEWORK

TAMIL NADU INFRASTRUCTURE FUND MANAGEMENT  
CORPORATION LIMITED

Public Disclosure Version

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# Executive Summary

A growing number of investors have begun to focus on Environment, Social and Governance (ESG) to arrive at a more detailed understanding of the risks and opportunities a company faces, in which they invest. These investors are of the opinion that it is essential to consider ESG issues in their analysis as these aspects can have an impact on the overall investment performance. There is growing recognition in the financial community that an effective analysis of ESG risks and opportunities is a fundamental part of the assessment of a company's value. Addressing the ESG risks during a fund's investment period acts as an important lever to add value to the portfolio companies.

ESG or Responsible Investment is also core to Tamil Nadu Infrastructure Fund Management Corporation Limited (TNIFMC). We insist on a comprehensive ESG management from a fundamental belief that this is important to ensure that development does not come at the cost of a damaged environment, poor working conditions of local workers or negative impacts on communities. This ESG Management System (ESGMS) is applicable to all the investments under the Tamil Nadu Shelter Fund (TNSF) of TNIFMC. It is intended to provide a practical step-by-step guidance and to assist the TNSF team in integrating ESG criteria into its investment process and throughout the project lifecycle.

The key components of TNSF's ESGMS include an ESG Policy, implementation procedures presented as tools, process flowcharts, formats & templates and a resource library. The ten tools<sup>1</sup> which are part of the ESGMS are designed to enable compliance with the ESG requirements established by TNSF.

The ESGMS is applicable through pre-investment, construction and operation stages till exit from an investment. In the pre-investment process that includes screening of the prospective projects on the *ESG screening criteria*, three out of ten ESG tools apply; namely Corporate Governance, ESG Due Diligence and Identifying and Evaluating ESG Risks. The process of potential investment opportunities' evaluation begins with identification and receipt of proposals by the Deal/Investment team. The identified opportunities are screened against the requirements of TNSF's Private Placement Memorandum (PPM). If the identified opportunity successfully clears the PPM requirements, it further gets evaluated against the *Preliminary Eligibility Criteria*.

The following criteria are established for further screening of the project proposals. The project proposal that falls in the underlisted criteria will not be considered for investment and further evaluation.

1. Any construction presently notified as illegal or non-compliant by the local or the Tamil Nadu municipal, revenue or housing authorities.
2. Properties and / or land facing any material litigations in the Indian court of law for forced eviction of previous owners or occupants without appropriate compensation.
3. Owners/ Promoters/ Sponsors convicted by the Indian court of law, in the past 5 years, on ESG aspects such as financial fraud, inappropriate employment and labour practices, safety, unauthorized construction, and/or non-compliance to the National and/or Tamil Nadu State environmental and labour laws.
4. Properties developed on land / area involving outstanding disputes on ownership of the land, in the court of law.

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<sup>1</sup> The ten tools along with their ESGMS Implementation Manual (Part 2) and the ESG Impact Assessment Tool are confidential proprietary documents of TNIFMC. Please contact Rashmi Jawahar at [Rashmi.j@tnifmc.com](mailto:Rashmi.j@tnifmc.com) for any queries.

5. Properties built in locations and / or in a manner that involves significant degradation or conversion of environmentally critical habitats and / or legally protected ecological or social and cultural areas under the applicable National or Tamil Nadu State regulations.
6. Properties/ land proposed on the land reclaimed from known / established contaminated sites such as waste landfill sites, industrial sites, etc. unless remediated for the intended use.

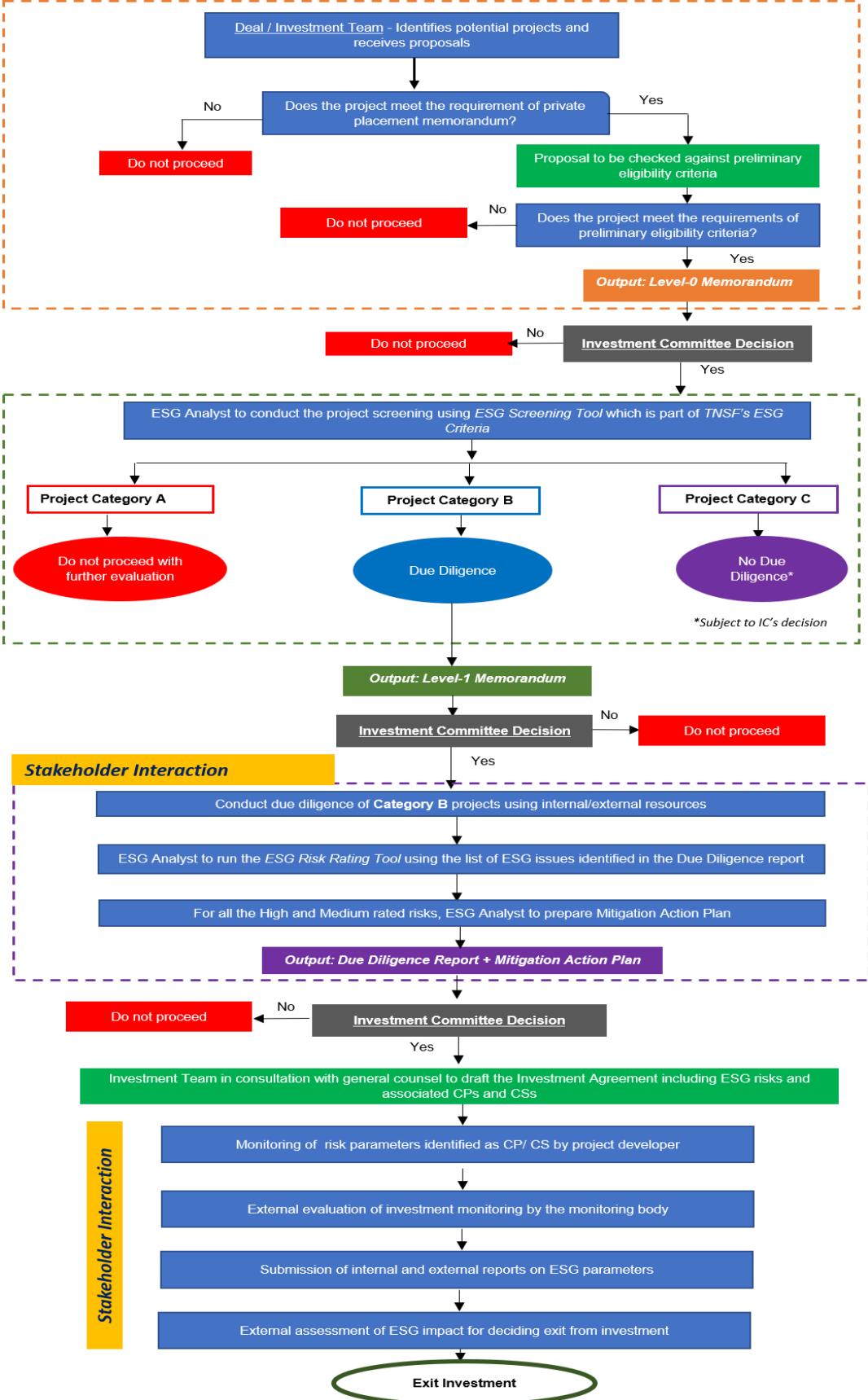
Once the identified opportunity clears the requirement of *preliminary eligibility criteria*, and has obtained Investment Committee's approval, the ESG Analyst evaluates the project using TNSF's ESG screening criteria. The ESG screening criteria provides a broad level guidance on the process and key steps involved in undertaking a thorough project screening. The tool 1 on *Corporate Governance* emphasizes the need to make corporate governance and business integrity central to the functioning of the Fund. Based on the results of project screening, the ESG team of TNSF seeks Investment Committee's approval on conducting ESG due diligence. In continuation to approval obtained from the Investment Committee, the ESG Analyst employs Tool 3 *ESG Due Diligence*, it defines the process to conduct a detailed ESG due diligence. The comprehensive list of issues identified from ESG due diligence will be used to identify and evaluate project specific key risks, using the Tool 4 *Identifying and Evaluating ESG Risks*. The ESG Analyst compiles the results of ESG due diligence and risk evaluation and presents it to the Investment Committee for final *go-ahead*.

In the construction and operation stages of investment, four out of ten ESG tools apply; namely Investment Agreement, Monitoring of Investment, Grievance Redressal Mechanism and Internal & External Reporting. Upon go-ahead from Investment Committee on the results of ESG due diligence and risk evaluation, the ESG team proceeds with drafting of investment agreement using Tool 5 *Investment Agreement*. The investment agreement captures the monitoring parameters, Conditions Precedent (CP) and Conditions Subsequent (CS). The tool provides guidance on the inclusion of ESG related clauses in the investment agreements to ensure project Owners/ Promoters/ Sponsors are committed to implementing ESG practices into their operational activities. The Tool 6 *Monitoring of Investment* will assist the Investment Team/ESG Analyst/Third -Party consultants to monitor the implementation and compliance to the ESG clauses in the investment agreements during the investment cycle. For periodic reporting of ESG parameters to internal and external stakeholders, Tool 8 *Internal and External Reporting* has been developed. The tool outlines the process for reporting ESG performance at the Fund level as well as the portfolio company level at various stages of the investments. TNSF has also developed Tool 7 on *Grievance Redressal Mechanism*, that provides a transparent framework for registering and addressing the grievances of external stakeholders.

TNSF has also established two tools that will be applied across various stages of investment, namely Tool 2 *Stakeholder Identification and Consultation* and Tool 9 *Record Management*. For the exit from an investment, TNSF has developed Tool 10 *ESG Considerations at Exit* that provides process for evaluation of the ESG performance of the portfolio company at the stage of exit, and the potential buyer.

TNSF has also developed an ESG Impact Assessment (IA) Tool that includes procedure for identifying and assessing the direct and indirect impacts associated with affordable housing projects on the intended beneficiaries, note on conducting an IA study at both Fund and Project level, and the required monitoring framework including the methods, tools required for conducting an IA study.

A brief outline of key processes involved in TNSF's overall ESG investment is illustrated below.



# Introduction

## 1. About Tamil Nadu Shelter Fund

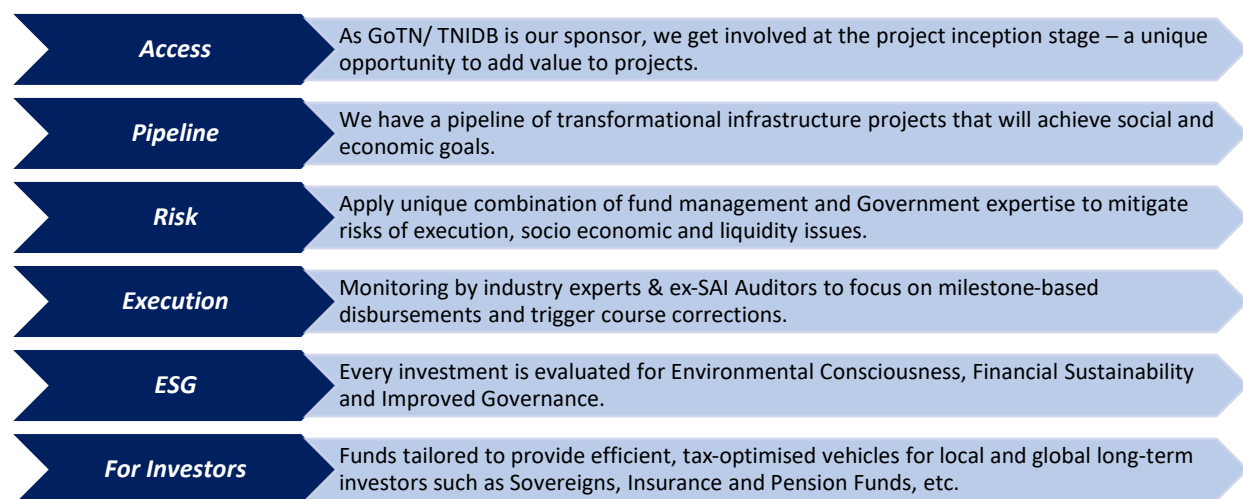
Tamil Nadu Shelter Fund (TNSF, hereafter referred as “TNSF” or “Fund”) is a Category I (Social) Alternate Investment Fund managed by the Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC) Limited. The Fund invests in affordable housing and/or in-situ livelihood infrastructure projects (with expected moderated returns) across the State of Tamil Nadu in India, and by doing so emancipates vulnerable people, Economically Weaker Sections (EWS) and Lower Income Group (LIG). TNSF aims to deliver social impact by reducing the environmental footprint and improving the living conditions and livelihood of the beneficiaries (especially the vulnerable communities, EWS and LIG). Towards this objective, the Fund integrates Environmental, Social and Governance (ESG) criteria into its investment process to ensure project sustainability. The Private Placement Memorandum (PPM) of TNSF details the Fund’s structure, its governance, investment management practices/requirements, legal & regulatory considerations, risk factors, and the requirements of ESG monitoring and implementing an ESG Management System (ESGMS).

Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC) Limited is a Government of Tamil Nadu promoted company, with Tamil Nadu Infrastructure Development Board (TNIDB) as the main shareholder. TNIFMC manages two major funds namely Tamil Nadu Infrastructure Fund and Tamil Nadu Shelter Fund. The company combines private sector rigor with deep domain skills of the Government in conceptualizing and delivering infrastructure projects on a large scale. TNIFMC’s other shareholders are National Housing Bank, Indian Bank, Karur Vysya Bank, United India Insurance Company Limited, City Union Bank and Canara Bank.

### ***Our Mission***

TNIFMC shall harness the transformational power of private capital for public good through SEBI regulated investment vehicles and will aim to provide an attractive risk-adjusted return to investors. It achieves this by combining government experience with fund management expertise, applied to project appraisal, investment and monitoring to generate superior returns at exit.

### ***Our Differentiators***



## **Our Charter**

### **ESG**

TNSF will ensure that every project is environmentally, socially and financially sustainable and improves governance.

### **Beneficiaries**

TNSF will benefit economically weaker sections, lower income groups and vulnerable segments.

### **Diversification**

TNSF shall invest in public, private and Public-Private Partnership (PPP) projects. It will also invest in both ownership and rental assets.

### **Social Impact**

The Fund manager will draw a base line and monitor the Fund's achievements against that to report return in terms of People and Planet.

### **Moderated Returns**

Core philosophy is to cross-subsidise free/below cost housing with higher-cost real estate projects and in-situ.

### **Quality of Operation and Maintenance**

Not only will the projects be built better, it will also be maintained better over a long term in a sustainable fashion.

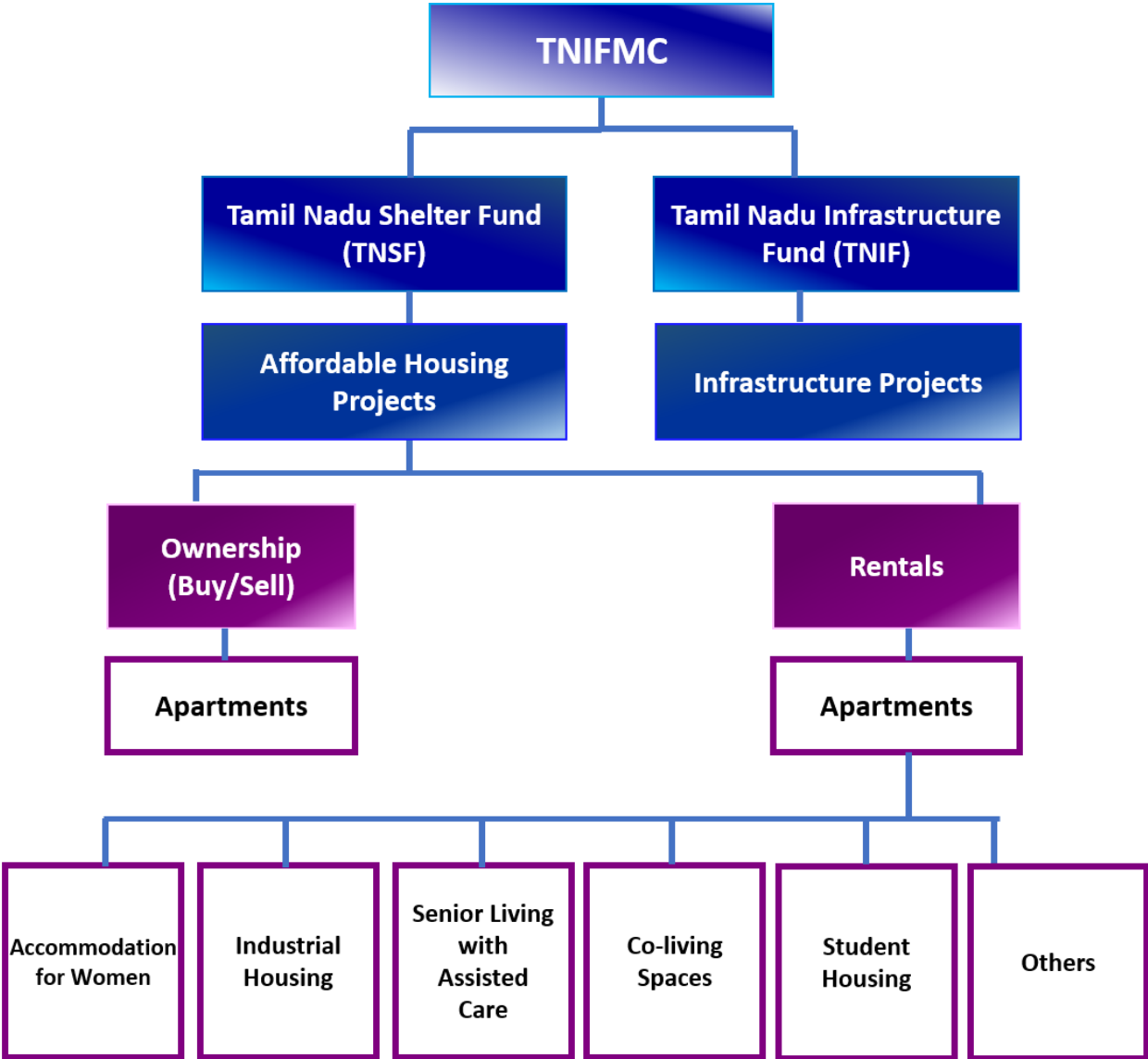
## **Our Policies and Procedures**

Following list of policies and procedural documents established and adopted for implementation by TNIFMC are applicable to TNSF.

Policy	Procedure / Legal Document
1. Investment policy	1. TNSF Private Placement Memorandum
2. Anti-bribery and corruption policy	2. TNSF Investment Manual (of which the ESMS will be an integral part)
3. Dealing policy	3. Investor Operating Manual (under preparation)
4. Whistle blower policy	4. Checklist used by Investment Team for screening and evaluation of proposals
5. Preservation of records policy	5. Process for selecting EPC contractors, operators, etc.
6. Working hours and leave policy	6. Land due diligence process
7. Employee grievance redressal policy	
8. Prevention of sexual harassment policy	
9. Recruitment policy and process	
10. Performance policy	
11. Policy for disciplinary action	
12. Code of Conduct	



**Our Focus Areas**



## 2. About ESG

The term 'ESG' is commonly used to refer to Environmental, Social and Governance matters relevant to a company's strategy and operations. ESG investing is also referred to as sustainable investing, responsible investing, impact investing, or socially responsible investing. There is growing recognition in the financial community that an effective analysis of ESG risks and opportunities is the fundamental part of assessment of any company's value.

ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates; and the steps taken by the company to avoid supporting activities that causes harm to the community, etc. Governance deals with a company's policies and practices related to leadership, executive pay, audits, internal controls, and shareholder rights, etc.

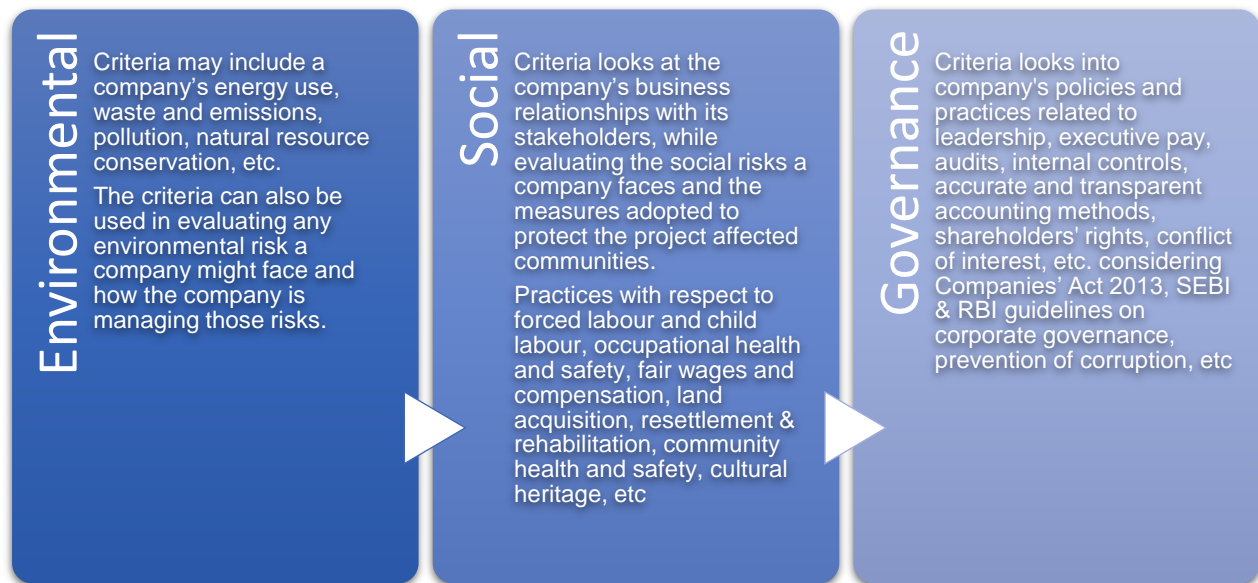


Figure 1 ESG CRITERIA

### **Business Case for ESG Integration**

There are clear financial reasons for companies to invest in ESG improvements, indicating that ESG programs can generate substantial direct financial returns. The current trend among investors is to encourage their asset managers to incorporate more long-term ESG thinking into their company valuations and report to investors on key ESG issues. There are several standards and codes that are adopted by the asset management companies to strengthen their ESG performance and identify ESG risks for their investments.

Leading asset owners, investment managers, financiers (banks) are now signatories to global responsible investment charters like the UN Principles for Responsible Investment (UNPRI), the Equator Principles. These developments build the case for effective ESG analysis throughout the financial sector, including for private equity. Sound ESG management can influence the levers that companies use to create value.



Figure 2 ESG DRIVERS

### ***Risk Management***

Some private equity investors regularly undertake environmental, social and business integrity assessments as part of their due diligence in order to establish whether there are liabilities which have not been accounted for elsewhere. Engaging with local communities can improve a company's ability to adapt better to changing political and social situations, with lower risks of disrupted operations and lower security costs.

### ***Revenue Growth***

Sales into a new market may require a company to adapt its products or services to satisfy different regulations and standards. Establishment of a subsidiary in, or sourcing from, a new market requires a company to understand specific local ESG risks. In some cases, this goes beyond compliance with the local legislation where local standards fall short of those expected from the company. Opportunities may also arise from looking at markets which have not been part of the company's traditional strategy. Local ESG efforts and community dialogue can facilitate entry into new markets with lower risks of disrupted operations and lower security costs.

### ***Innovation***

Product design needs to adapt as customer preferences change and new technologies emerge. Pressures are growing on companies to produce goods and services which recognize the limitations of the natural environment and which are therefore based less on a 'consumption' approach of create-use-dispose and more on a 'life-cycle' approach of create-use-reshape-and-reuse. Companies constantly seek to develop cutting edge technology and innovative products and services for unmet environmental or social needs that could translate into business uses, patents, proprietary knowledge, etc.

### ***Brand Enhancement***

There are multiple examples of companies that successfully use ESG factors to engage with customers and build brands. A reputation for sustainable business practices can build brands for which customers are willing to pay a price premium. Successful ESG programs can be an important way to foster brand loyalty, improve company reputation and gain goodwill with customers and stakeholders. Attention to ESG issues is also important to avoid negative publicity and boycotts.

### ***Market Access***

Trade buyers and investors pay increasing attention to ESG matters. Sound ESG management can substantially improve a fund manager's potential for a successful exit. Increasingly, there are ESG requirements associated with Initial Public Offerings (IPOs) in emerging markets, e.g. full compliance with environmental regulations in line with international standards for IPOs operating in China.

### 3. ESG Risks for Housing Sector

Investing responsibly, or considering Environmental, Social and Governance (ESG) criteria in investment valuations and assessment, can generate long-term competitive financial returns and positive societal impact.

Asset owners, among other stakeholders, are increasingly concerned with the way asset managers assess ESG risks to inform buyouts/acquisitions decisions, and subsequently manage those risks to protect value and unleash value generating opportunities during the holding period. ESG risks include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations. Responsible investment should also consider the impacts of megatrends (e.g. climate change), and emerging regulations or voluntary guidelines, as well as the requirements of wider stakeholders for transparency.

A thorough due diligence can uncover social, ethical, environmental and safety risks associated with a specific acquisition, or investment. Understanding the risks can help assess the costs and attribute value related to the investment.

TNSF's portfolio is planned to be predominantly structured around funding public, private and PPP (Public Private Partnership) projects (both rental and ownership based) across themes such as affordable housing, working women's hostel, industrial housing, student housing and senior & assisted living. From the Fund's perspective, a host of ESG risks could potentially deter its intended objectives and minimum gross Internal Rate of Return (IRR). Based on the secondary research and our understanding of the affordable housing sector, the top ESG risks across the project lifecycle are as below:

1. **Unfair Business Practices and Corruption & Bribery:** There could be multiple avenues that could pose reputational risks due to unfair business practices, lack of transparency (in ESG & statutory requirements), conflict of interest etc. and could arise from project owners, Engineering, Procurement, Construction (EPC) contractors and operators, etc. Similarly, corruption is a generally prevalent concern in the real estate sector in India. This could potentially affect project viability e.g. due to undisclosed political payments (by developers for gaining contracts), poor quality of product leading to safety risks, etc.
2. **Human Rights and Safety:** The sector faces human rights related challenges across its project lifecycle. Developers, contractors are found inadequate on practices related to - working conditions (e.g. excessive working hours, unfair disciplinary measures, etc.), health & safety provisions, freedom of association & collective bargaining, grievance mechanism, potential for elder abuse etc.
3. **Operational Eco-Efficiency:** With cities like Chennai facing severe water shortages and increasing concerns of climate change, monitoring and continually improving operation eco-efficiency parameters (Energy / Water consumption & intensity, GHG emissions & intensity etc.) would be necessary.
4. **Product Quality & Safety:** Quality of the affordable housing becomes an important ESG issue which also relates to long-term sustainability of the project and the safety of the beneficiaries. Concerns such as increased maintenance costs, resilience to physical impacts of climate change, building stability etc. will eventually become critical focus areas.
5. **Sustainability of Product:** Sustainability of product is not just ensuring a suitable model for operation & maintenance of the projects but also ensuring there are adequate supporting services/

facilities available for the beneficiaries such as access to public transit, markets, health centers, education for children, municipal services, open spaces for community gatherings, etc.

The secondary research has also helped us identify a list of potential high-level ESG risks that could impact us at various stages of project implementation.

	Site Selection & Land Acquisition	Project Design, Planning	Construction
<b>Environmental Risks</b>	<ul style="list-style-type: none"> <li>▪ Land or site in or near an ecologically sensitive areas (e.g. lakes, marshland, forest etc.)</li> <li>▪ Vulnerability to physical impacts of climate change and extreme weather events</li> <li>▪ Exposure to pollution (very poor air quality, proximity to landfill, poor land quality / contaminated site etc.)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not meeting environmentally sustainable design requirements of TNSF (e.g. absence of incorporating green building and / or climate responsive architecture design requirements)</li> <li>▪ Sourcing of raw materials (using of environmentally friendly construction materials)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Emission of dust and other particulates affecting nearby communities</li> <li>▪ Sourcing of raw materials (using of environmentally friendly construction materials)</li> <li>▪ Type of construction material used (e.g. lead/ asbestos, etc.)</li> <li>▪ Use of hazardous chemicals, pesticides, etc. for termite control</li> <li>▪ Improper disposal of various wastes generated at site, including construction &amp; demolition wastes</li> <li>▪ Discharge of waste water (contaminated with oil, sediments) into land or water bodies</li> <li>▪ Spill of hazardous chemicals, oils etc.</li> <li>▪ Weather risks - wave currents (storm risks) are plaguing many off-shore projects, yet are increasingly uninsurable</li> </ul>
<b>Social Risks</b>	<ul style="list-style-type: none"> <li>▪ Violations of requirements under Land Acquisition, Rehabilitation and Resettlement Act (e.g. Inaccurate census of affected persons / households, inadequate compensation, absence of robust process of public hearings, etc.)</li> <li>▪ Involuntary resettlement, forced eviction, permanent or temporary</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not defining clear criteria and process of selecting target beneficiaries</li> <li>▪ Gaps in project cost estimation during planning can lead to increased expenses making it unaffordable to intended beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>▪ Child labor</li> <li>▪ Risks related to Human Rights of workers               <ul style="list-style-type: none"> <li>○ Poor working conditions,</li> <li>○ Excessive working hours,</li> <li>○ Discrimination</li> <li>○ Non- payment of overtime as per regulations</li> </ul> </li> </ul>

	Site Selection & Land Acquisition	Project Design, Planning	Construction
	<ul style="list-style-type: none"> <li>physical and economic displacement</li> <li>▪ Opposition due to political interference, advocacy or civil society groups</li> <li>▪ Unrealistic expectations of compensation among affected communities</li> <li>▪ Issues of availability and access to basic amenities for intended beneficiaries (water, school, public transport, rations etc.)</li> <li>▪ High price of land increasing total cost of project (leading to exclusion of EWS, LIG from intended beneficiaries)</li> </ul>	<ul style="list-style-type: none"> <li>▪ For ownership-based models, absence of on-boarding housing credit providers can restrict access to lower lending rates</li> </ul>	<ul style="list-style-type: none"> <li>○ Disciplinary measures that include violence</li> <li>▪ Occupational health and safety issues of workers and public</li> <li>▪ Lack of accesses to housing, health care and education for migrant workers</li> </ul>
<b>Governance Risks</b>	<ul style="list-style-type: none"> <li>▪ Non-availability of all required land related approvals or documents</li> <li>▪ Compliance to applicable laws &amp; regulations</li> <li>▪ Uncertainty in land ownership / acquisition made by the State Government</li> <li>▪ Establishing authenticity of land-ownership records</li> <li>▪ Delays i.e. extended legal process (e.g. due to required change in land-use) or litigations (legacy issues) to finalize legal ownership.</li> <li>▪ Political risk - the ability to overcome the political risk of the project, including local, state, and national political opposition and code and regulatory impediments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Absence of procedure (including criteria) for selection of developers, contractors, and related service providers can lead to issues related to business ethics.</li> <li>▪ Not incorporating requirements under building codes and rules in project design / planning (e.g. Tamil Nadu Combined Building Rules, 2019)</li> <li>▪ Non-availability of required permits (e.g. building permit)</li> <li>▪ Review of design / plan by independent experienced designer to minimize change orders</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of inspection of quality of materials used</li> <li>▪ Absence of monitoring of labor compliance and construction in accordance with applicable green building requirements, national / state codes and rules / local building byelaws.</li> <li>▪ Project insurance risk - global reinsurance market currently has severe capital restrictions that are restricting access to project insurance</li> </ul>

	Contracting Infrastructure Service Providers and Others	Identification of beneficiaries & allocation	Operation & Maintenance
<b>Environmental Risks</b>	<ul style="list-style-type: none"> <li>▪ Lack of awareness and absence of systems and processes to manage potential environmental impacts from their operations</li> <li>▪ Reputational risks related with offering contracts to firms convicted of serious environmental violations or those with a poor track record of environmental performance.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Low operational eco-efficiency (water, energy consumption, GHG intensity)</li> <li>▪ Improper collection, storage and disposal of waste generated</li> <li>▪ Lack of maintenance of sanitation and storm water drain systems on periodic basis</li> </ul>
<b>Social Risks</b>	<ul style="list-style-type: none"> <li>▪ Low awareness on labor management and inadequate human resource policies and procedures</li> <li>▪ Risks related to terms of employment (benefits, compensation clauses etc.)</li> <li>▪ Absence of mechanisms for grievance redressal and freedom from harassment from supervisors or other workers</li> <li>▪ Lack of adequate management systems for ensuring occupational health &amp; safety of workers</li> <li>▪ Reputational risk associated with offering contracts to firms accused or convicted of human rights violations or offences related to labor management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Non-availability of financial services (affordable loans) for a certain target beneficiary</li> <li>▪ Absence of audit or vetting of Utilization Certificates</li> <li>▪ Property not affordable to intended beneficiaries (e.g. higher price of rent for EWS)</li> </ul>	Covered under <i>Contracting Infrastructure Service Providers and Others</i>

	Contracting Infrastructure Service Providers and Others	Identification of beneficiaries & allocation	Operation & Maintenance
<b>Governance Risks</b>	<ul style="list-style-type: none"> <li>▪ Conflict of interest in infrastructure service provider, contractors, operators, etc.</li> <li>▪ Absence of clause related to ESG requirements (e.g. OHS specifications, anti-corruption bribery clauses, etc.) of infrastructure service providers, contractors, operators etc.</li> <li>▪ Failure to screen contractor's possession of licenses, compliance and enforcement to labor laws</li> <li>▪ Absence of performance guarantees from service providers, operators, contractors etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of transparency and absence of fair process in selection of beneficiary (ownership + rental models)</li> <li>▪ Corruption in allotment of property</li> </ul>	<ul style="list-style-type: none"> <li>▪ Absence of regular monitoring or quality checks</li> <li>▪ Inadequate impact assessments and risk of ownership changing to unintended beneficiaries</li> <li>▪ Encroachment of common land spaces by building temporary structures like huts, etc.</li> </ul>



## Overview of the ESGMS

This ESG Management System (ESGMS) is applicable for all the investments under the Tamil Nadu Shelter Fund (TNSF) of TNIFMC. The ESG Management System has been developed primarily on the basis of Indian environmental, social and governance regulatory frameworks. The ESGMS has also been aligned with the relevant State (Tamil Nadu) laws and regulations. It is in compliance with international standards such as the Equator Principles, the World Bank Group’s (WBG) Environmental and Social Performance Standards, Asian development Bank’s (ADB) Safeguard Policy Statement and aligned with other relevant frameworks on ESG.

1. The World Bank Group’s Environmental and Social Standards (2018)
2. World Bank ESS9 (Environment Social Standard applicable to Financial Intermediaries)
3. Operational Manual - Performance Standards for Private Sector Activities (OP 4.03)
4. ADB’s Safeguards Policy Statement (SPS) 2009
5. IFC Performance Standards
6. The United Nations’ Principles for Responsible Investment (UNPRI)
7. The Equator Principles, 2013
8. Principles of the United Nations Global Compact

The ESGMS reflects TNSF’s ESG policy and objectives to guide its investments in Tamil Nadu. This ESGMS is intended to help TNSF in integrating ESG risks into its investment decision making process and monitoring its performance until exit. The tools which are part of the ESGMS are designed to enable compliance with the ESG requirements established by TNSF. The key components of the ESGMS are illustrated below.



Figure 3 COMPONENTS OF TNSF’s ESGMS

TNSF requires to;

- a. assess all new investments from an ESG perspective, as an integral part of the investment appraisal process;
- b. give new investments a risk rating on ESG issues to determine the appropriate level of management and monitoring;
- c. to assist the portfolio companies in establishing an ESG Management Plan appropriate to their operations;

- d. encourage the portfolio companies to work towards continuous improvements in these areas, with targets for improvements as appropriate;
- e. encourage the portfolio companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant risks;
- f. monitor portfolio companies' ESG performance and their progress towards relevant action plans and targets for improvement;
- g. report periodically to the Fund's governing body and to investors on the performance of portfolio companies from an ESG perspective.

# ESG Policy

## TNSF Vision

TNSF's ESG Policy is driven by its charter to benefit the economically weaker section, lower income groups and vulnerable segments in Tamil Nadu by providing them necessary affordable housing units /or in-situ livelihood infrastructure.

TNSF envisages to integrate the criteria of Environmental, Social, and Governance (ESG) risks and value creation opportunities into its investments while ensuring that the investments follow India's National and State Governments' environmental and social objectives and good governance requirements that are promulgated through prevailing sector specific institutional regulations, policies and guidelines.

## Objectives and Scope

### **Objectives**

Through this ESG Policy, TNSF aims to:

- ensure that every project under the Fund, is environmentally, socially and financially sustainable, and adopts good governance practices.
- deliver overall positive social impact by improving the living conditions and livelihood of the beneficiaries including vulnerable communities, economically weaker sections and lower-income groups.
- develop an integrated approach towards analyzing the ESG parameters in addition to financial criteria throughout the investment cycle.
- continually engage with its stakeholders to create more awareness about ESG and promote positive environmental and social impacts through effective ESG practices.
- encourage portfolio investees to manage risks responsibly by working beyond regulatory requirements and moving towards enhanced social value creation.
- encourage greater transparency and accountability on ESG topics internally and externally through periodic disclosure.

Towards achieving these objectives TNSF is committed to adopt global standards and principles of responsible investing, and to integrate ESG criteria into its investment approach and decision-making processes.

### **Scope of the Policy**

This policy shall apply to all the investments considered by the Investment Committee or made by TNSF following the date hereof, and will be interpreted in accordance with local, state and national laws and regulations. In cases where TNSF determines it has limited ability to conduct diligence or to influence and control the integration of ESG criteria in the investment for instance, in cases where TNSF is a minority shareholder, or where other circumstances affect TNSF's ability to assess, set, or monitor ESG-related performance goals, it will not necessarily be feasible to implement ESG-related principles. In such instances where TNSF believes it to be appropriate, reasonable efforts will be made to encourage these portfolio investee companies to consider relevant ESG-related principles.

## Roles and Responsibilities

TNSF's investment professionals, with guidance from the Investment Committee, are primarily responsible for ensuring that the consideration of ESG criteria is integrated into the investment decisions in collaboration

with the Legal Compliance teams. Where additional subject matter expertise is needed, the teams will utilize external resources as relevant and necessary. The Investment and Advisory teams are responsible for facilitating the implementation of this policy in the investments and for maintaining and updating the policy to ensure its continued relevance. This policy is reviewed and approved by the appropriate decisionmakers.

## Our Commitments

### ***Integrating ESG Criteria into Investment Decisions***

TNSF and the projects wherein the funds are invested, with the required competent staffing, will:

- continually identify and operate in compliance with all the applicable National and State laws and regulations (as a minimum);
- give preference to environment friendly projects focusing on conservation of natural resources, and minimizing greenhouse gas emissions in their lifecycle;
- identify and assess the potential ESG risks and impacts of our investments;
- take appropriate actions to minimize the adverse ESG impacts, and enhance the positive impacts of the project activities on the environment, end users/beneficiaries and all associated stakeholders by developing an action plan addressing the environmental and social impacts ;
- as appropriate, promote the social development impacts of the projects;
- treat all their employees and contractors fairly and respect their dignity, well-being and diversity;
- not employ or make use of child labour and forced labour of any kind;
- pay wages which meet or exceed the legal minimum wages;
- allow consultative work-place culture which provides employees with an opportunity to present their views to management;
- provide safe and healthy working conditions to all the employees and contractors of the projects in which TNSF's funds are invested;
- assess the health and safety risks arising from work activities, and take appropriate actions to eliminate or reduce risks to health and safety of the workers and all those affected by the project activities;
- promote best practices and uphold high standards in relation to corporate governance including transparency, honesty, integrity, fair working conditions, diligence and ethics in all business dealings;
- not provide or receive any kind of bribe, gifts of substance in the course of their business to confer preferential treatment;
- prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest;
- deal with regulators in an open and co-operative manner;
- clearly define responsibilities and accountabilities, procedures and controls with appropriate checks and balances;
- use effective systems of internal control and risk management covering all significant ESG aspects;
- will avoid financing activities falling in the purview of Preliminary Eligibility Criteria;
- monitor, evaluate, and enhance the ESG performance of the investments with respect to environmental consciousness, social and financial sustainability and improved governance, through appropriate performance indicators.

## Applying the ESGMS

Every investment carried out by TNSF is mandatorily guided by the ESG Management System (ESGMS) that is developed as stand-alone document and plays an integral part in the ESG based investment

decision-making process. All the processes outlined in the ESGMS are applicable across various phases of investment decision making. The requirements of each of the ESGMS procedures will be analyzed in detail by the investment teams during the Environmental, Social and Governance Due Diligence (ESGDD) process prior to investment. The investee companies will be required, as part of their credit assessment process, to integrate TNSF's applicable Environment, Social and Governance (ESG) requirements by establishing a project specific action plan.

### ***Project Screening and Categorization***

Every investment made by TNSF will be screened for material ESG risks and impacts. The early stage ESG risk assessment will rely on primary information furnished by the investee Company and relevant contextual information available from reliable and accurate secondary sources.

### ***Environmental Social and Governance Due Diligence***

As part of the potential project appraisal process that includes due diligence from financial, legal, and other aspects, undertaking ESGDD process is also a key and mandatory requirement under this policy and applies to all the investments made by TNSF. The key objective of carrying out an ESGDD is to ensure regulatory compliance as well as identify and address all material ESG risks foreseen through the project life cycle.

### ***Monitoring and Evaluation***

In case of material risks identified during the diligence process, the investee company will develop a corrective action plan to mitigate/ manage these risks, or monitor ongoing progress on ESG aspects, as applicable. Where management of, or performance on, a material risk is considered by TNSF to need improvement, TNSF will work with the investee company management to support the development of a corrective action plan.

### ***Active Ownership***

TNSF evaluates the companies it partners with on ESG parameters and employs an active engagement strategy with these companies on ESG issues to improve their awareness and performance over time.

As active owners, TNSF leverages its voting rights across its investments, by evaluating and monitoring, various ESG parameters and their impacts on the Fund. TNSF believes in the need to adopt a positive engagement approach whereby it engages with all the portfolio companies and projects especially whenever it experiences shortfalls on global ESG standards and principles.

### ***Stakeholder Engagement***

Constructive communication with internal and external stakeholders is an important exercise which helps companies to convey its ESG commitments for long-term value creation and building a mutual understanding of company's ESG strategy. TNSF engages with its internal and external stakeholders to improve its ESG performance/integration into their investments. Different channels of engaging with stakeholders helps the Fund in identifying the interests and expectations which forms an important component of decision-making process.

### ***Governance***

The Investment and Advisory teams are responsible for ensuring effective implementation of this ESG policy. The Board and the Investment Committee, as part of its periodic meetings review, will monitor the

ESG integration, and engage with the portfolio companies<sup>2</sup> (e.g. proxy voting). The Board and the Investment Committee is also responsible for reviewing and amending (if required) the ESG policy on an annual basis.

### ***Grievance Redressal***

In order to address effectively any operational, social, environmental, labor and other general concerns, TNSF has established a structured grievance redressal framework supported by a review mechanism.

### ***Communication and Disclosure***

TNSF is committed to transparently communicate and disclose its ESG performance to all the associated stakeholders on an annual basis. We have put in place reporting systems to accurately capture the ESG data for analysis and reporting to our stakeholders.

## **Review and Approval**

This policy has been reviewed and approved by the Board of TNIFMC.

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<sup>2</sup> Portfolio companies refer to investee companies (SPVs)/projects.

## ESG Roles and Responsibilities

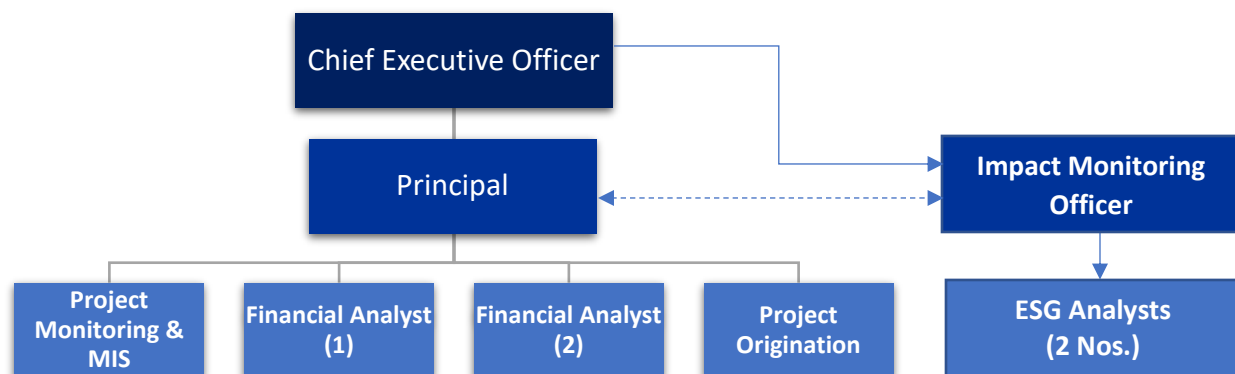
To support the Fund's on-going commitment to environment, health and safety, corporate governance, sustainability, and other public policy matters relevant to the Fund, a dedicated ESG Team shall be nominated. The ESG Team will comprise of senior members from different functions of the Fund. The Team will assist the top management (Chief Executive Officer, Investment Committee and Board of Directors) of the Fund in:

1. developing strategy relating to ESG;
2. developing, implementing, and monitoring initiatives and policies based on that strategy;
3. overseeing communications with all relevant stakeholders with respect to ESG; and
4. monitoring and assessing developments relating to and improving the Fund's understanding of ESG.

### ESG Team Composition

The Fund's Chief Executive Officer (the "CEO") will approve the members of the ESG Team. The ESG Team will include officers and employees, the CEO and Principal TNSF deems appropriate, taking into account such employee's expertise in relevant and varied disciplines, including environment, health and safety, operations, design & construction, legal, investor relations, government affairs, corporate governance, finance, human resources and communications. The ESG Team will comprise of:

- a. Principal TNSF
- b. Impact Monitoring Officer
- c. Project Lead
- d. General Counsel
- e. ESG Analyst



The ESG Team may, in its discretion, delegate all or a portion of its duties and responsibilities to an identified third-party.

### ESG Team Meetings

The ESG Team shall meet as often as it determines necessary or appropriate to meet its objectives, but no less frequent than quarterly. The Chair of the Team, in consultation with other Team members, shall determine the frequency and length of the Team meetings. The ESG Team may ask other officers and

employees of the Fund to attend meetings to provide pertinent information as requested. The Chairperson of the ESG Team, or his or her designee, is responsible for scheduling and setting the meeting agendas. The Fund's Principal will serve as the initial Chairperson of the ESG Team. The Chairperson along with the Impact Monitoring Officer will facilitate the submission of regular reports to the internal and external stakeholders.

### **ESG Team Duties and Responsibilities**

The duties and responsibilities of the ESG Team shall be as listed below:

1. to assist the top management (Chief Executive Officer, Investment Committee and Board of Directors) of the Fund in developing the strategy with respect to ESG, and to consider and recommend policies, practices, and disclosures that conform with the strategy;
2. to review the Fund's strategy, policies, practices, and disclosures for consistency with respect to ESG, and to make such recommendations to management with respect thereto as it may deem advisable;
3. to assist the top management in overseeing internal and external communications with all relevant stakeholders regarding the Fund's position on or approach to ESG areas, including by coordinating and reviewing, as appropriate, draft responses, reports, or other disclosures to stakeholders;
4. to bring to the attention of the top management, as appropriate, current and emerging ESG areas that may affect the Fund's performance, or public image or are otherwise pertinent to the Fund and its stakeholders, and to make recommendations to the top management, as appropriate, regarding how the Fund's current policies, practices, and disclosures can address such trends and issues;
5. to advise the top management on stakeholder concerns relating to ESG;
6. to review and assess this ESG MS annually and recommend any proposed changes for approval; and
7. to perform such other duties, tasks, and responsibilities relevant to the purpose of the ESG Team as may from time to time be requested by the Investment Committee.

### **ESG Team Reporting**

The ESG Team will report to the Chief Executive Officer and to such other members of the top management of the Fund as the CEO may from time to time designate.



## About the ESG Tools

The ESG tools provides a step-by-step process on how ESG analysis and management can enhance the Fund's investment process. It is designed to help the Fund's investment team to focus their time and resources efficiently, to increase awareness on ESG opportunities and risks which may need to be addressed and monitored, and to flag complex areas where an external specialist's support may be required. The ESGMS includes eleven ESG tools to be applied during the investment process. Each tool covers a specific area and is intended to be practical and easy to use. The ESG tools aim to:

- ensure that the ESGMS is systematically and correctly followed
- explore the business case for assessing and managing ESG risks and opportunities arising from investments;
- provide for integrating ESG analysis into investment decisions and investment management;
- help determine when specialist's expertise is required;
- consider how to report to the Board, investors and the public; and
- provide guidance on how to apply the local and national laws, and good international industrial practices.

### **Purpose and Applicability**

The purpose of the ESG tools is to assist TNSF in integrating ESG criteria into its investment process throughout the project lifecycle. These tools are applicable throughout the pre-investment, construction and operation stages till exit from an investment.

Tools	Purpose and Applicability
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>➤ This tool emphasizes the need to make corporate governance and business integrity central to the functioning of the Fund.</li> <li>➤ The tool is applicable with respect to the potential investments and the portfolio companies of TNSF and will help implement good corporate governance practices.</li> </ul>
<b>Stakeholder Identification and Consultation</b>	<ul style="list-style-type: none"> <li>➤ The tool guides on managing the stakeholder relationships throughout the investment cycle, and assists the project owner/promoter/sponsor and portfolio company– <ul style="list-style-type: none"> <li>• in engaging with relevant stakeholders at different stages of the project;</li> <li>• in defining and establishing engagement channels for facilitating appropriate communication with the stakeholders to understand their expectations and concerns if any and obtain feedback.</li> </ul> </li> </ul> <p>The stakeholders may include –</p> <ul style="list-style-type: none"> <li>• Government departments, local authorities (SPCBs, Law Enforcement Institutions)</li> <li>• Influencers and / or local leaders</li> <li>• Vulnerable / marginalized groups</li> <li>• NGOs / Civil society organizations</li> <li>• Local media</li> </ul>

Tools	Purpose and Applicability
	<ul style="list-style-type: none"> <li>• Implementation partners</li> <li>• Service providers</li> <li>• Beneficiary representatives</li> <li>• Employees of Project owner and TNIFMC</li> </ul>
ESG Due Diligence Process	<ul style="list-style-type: none"> <li>➤ The tool defines the process to conduct a detailed ESG due diligence.</li> <li>➤ This tool shall be applicable to portfolio companies who have cleared the Level-1 stage of the investment appraisal process and for which the Investment Committee (IC) has given a <i>go-ahead</i> for conducting the due diligence.</li> </ul>
Identifying and Evaluating ESG Risks	<ul style="list-style-type: none"> <li>➤ The tool provides guidance on identifying the ESG risks and opportunities related to the proposed investments. The identified risks will form part of monitoring parameters. The tool will assist the Fund in factoring the ESG risks &amp; opportunities into their investment decisions.</li> </ul>
Investment Agreement	<ul style="list-style-type: none"> <li>➤ The tool provides guidance on the inclusion of ESG related clauses in the investment agreements with the portfolio companies to ensure that they are committed to implementing ESG practices into their project activities.</li> </ul>
Monitoring of Investments	<ul style="list-style-type: none"> <li>➤ The tool defines the process that will assist the Investment Team/ESG Analyst/Third -Party consultants to monitor the implementation and compliance to the ESG clauses in the investment agreements during the investment cycle.</li> </ul>
Grievance Redressal Mechanism (GRM)	<ul style="list-style-type: none"> <li>➤ The objective of the tool is to provide a clear and transparent framework for registering and addressing the grievances of external stakeholders, including their concerns, queries and issues.</li> </ul>
Internal and External Reporting	<ul style="list-style-type: none"> <li>➤ The tool outlines the process for reporting ESG performance at the Fund level as well as the portfolio company level at various stages of the investments.</li> <li>➤ The internal report shall be submitted to Investment Committee (IC) and Board of Directors (BoD) of TNIFMC at half-yearly frequency, whereas the external report shall be submitted to the investors of the Fund at a frequency, as agreed with them, or at least annually.</li> </ul>
Record Management	<ul style="list-style-type: none"> <li>➤ The tool outlines the requirements for document control and record management throughout the investment cycle and beyond, as per the regulatory requirements.</li> </ul>

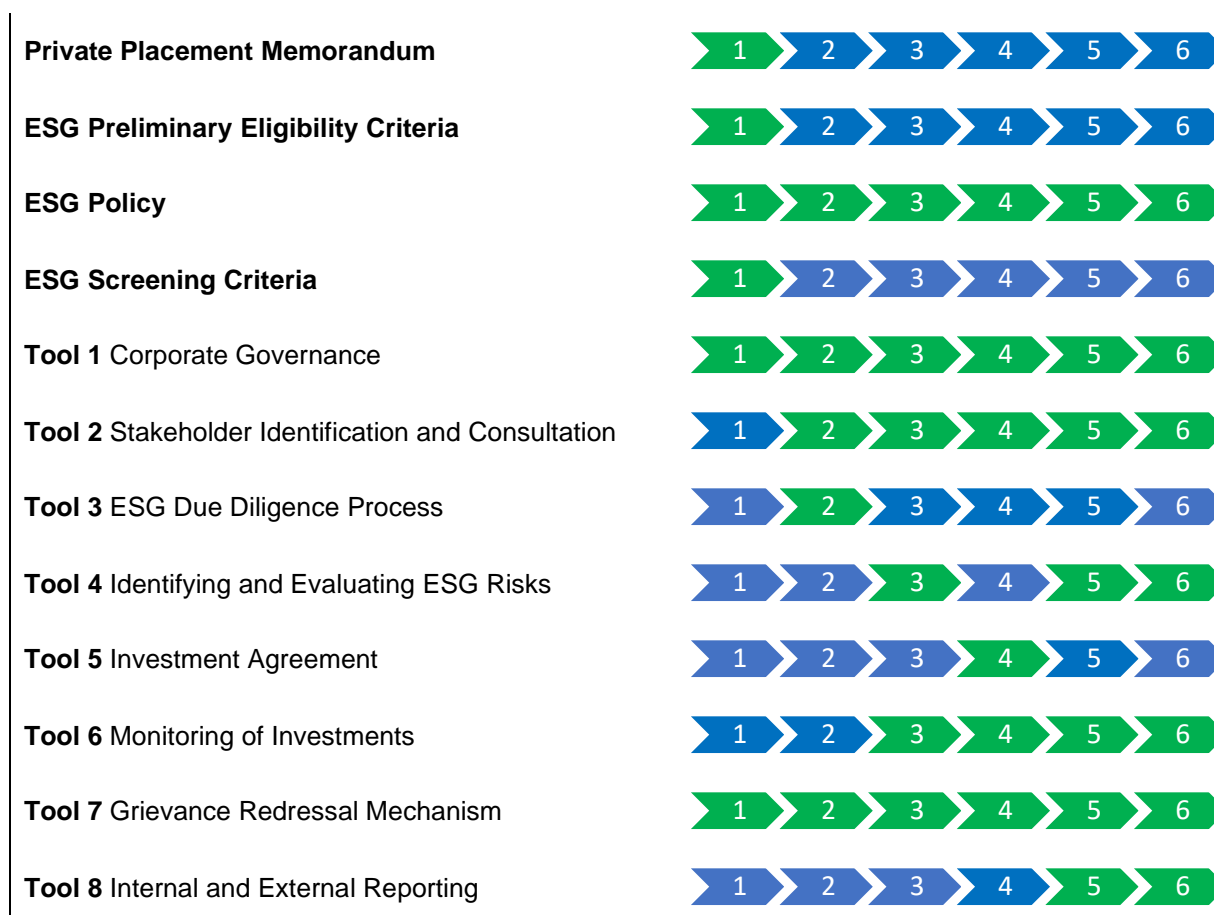
Tools	Purpose and Applicability
ESG Considerations at Exit	➤ The tool provides process for evaluation of the ESG performance of the portfolio company at the stage of exit, and the potential buyer.

### Who is this ESG Tool for?

This ESG Tool is for the TNSF’s Investment Team and other associates to use when they invest the Fund’s capital in various portfolio companies. The Investment Team and associates will use this tool to screen potential portfolio companies and the identified projects. These projects can be either government run, private limited or limited companies. The Investment Team and associates should apply this tool along with their financial due diligence process. The final financial agreement should also include the action plans emerging out of an ESG due diligence. The typical stages of investment process and how the tools apply at these stages is illustrated below.



Figure 4 INVESTMENT ACTIVITIES



**Tool 9** Record Management



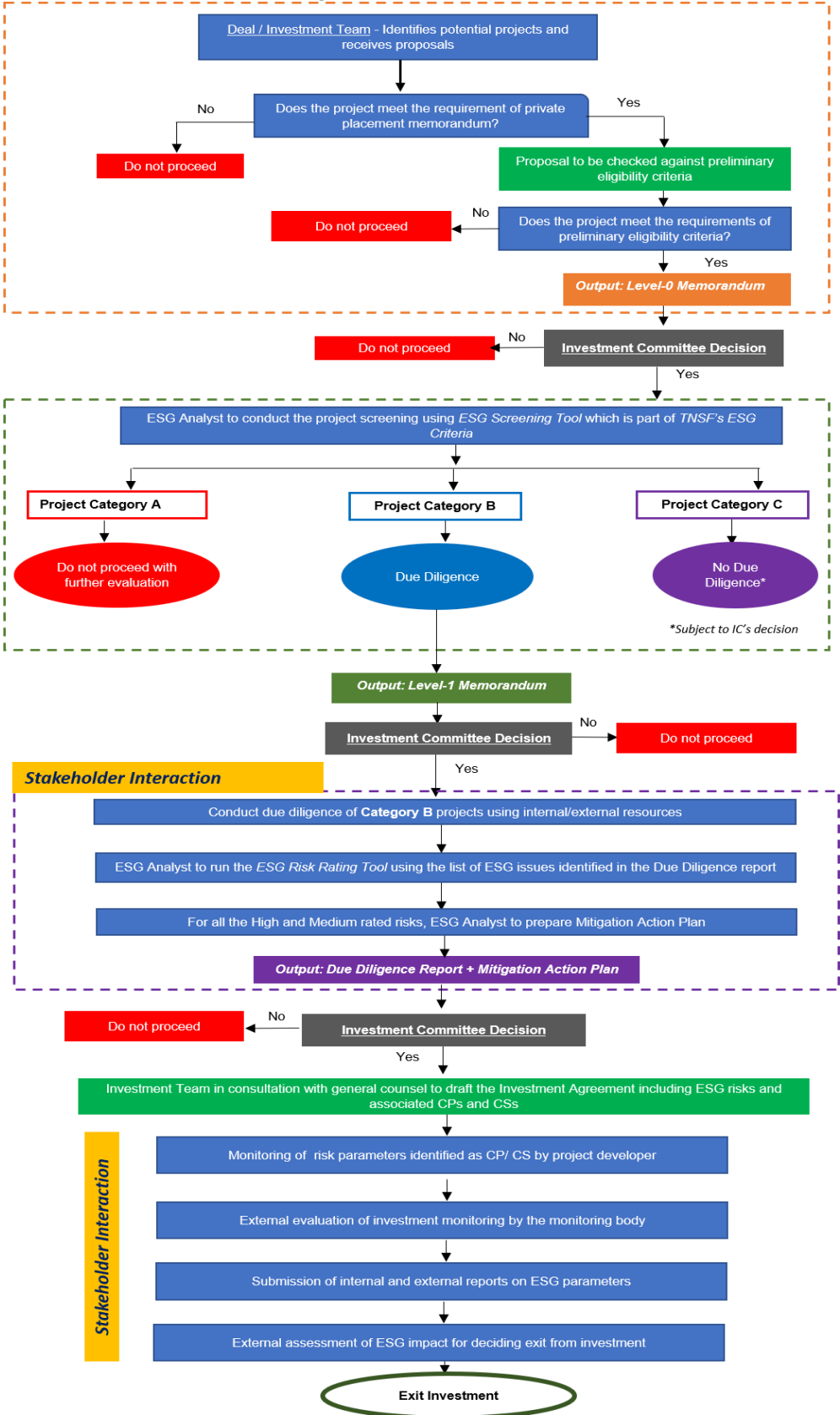
**Tool 10** ESG Considerations at Exit



*The green color reflects the stage wherein a tool is applicable.*

In order to implement the ESG tools effectively in our investment process, we have outlined the overall process flow.

Figure 5 ESG PROCESS FLOW



## Implementation of the ESGMS

In order to enable an effective implementation of its ESG policy, TNSF has developed an ESGMS Implementation Manual (Part II) and ESG Impact Assessment Tool (Part III) as part of its ESGMS. The Manual provides step-by-step instructions to ensure that the ESG factors are part of the decision making and investment monitoring processes throughout the investment cycle. For the implementation of the ESGMS, a set of ten tools has been developed. These tools intersect at different stages of the investment cycle, and information collected and managed under each tool complements and supports one another, guiding how the Fund conducts its business. The implementation of the ESGMS at the four phases of investment will be as below.

### **1. Pre-Investment**

At this stage it is a desk-based study of an identified opportunity followed by a detailed field investigation through an ESG due diligence. This step will be used to identify the project's ESG risks and its categorization using an Eligibility criteria, Preliminary screening, and further rating using an excel based ESG rating tool. Apart from a "go/ no-go" decision the ESGMS is also a negotiating tool. The team shall negotiate with the identified project owner/ promoter/ sponsor to set the standards and create measurable deliverables which are inked in the shareholder/ bondholder agreement along with parameters for incentives, disincentives, resolution and forced exits. We believe that both the project owner/ promoter/ sponsor and TNSF have several options to partner with, but TNSF would prefer to work with like-minded people. Thus, eventually creating an informal "*gold standard*" which will help us get better partners to generate returns and the owners to get cheaper and better funding.

### **2. Project Development**

The ESGMS will also apply in monitoring the project performance on ESG parameters during the project development stage, especially regarding implementation of the mitigation action plans on environmental pollution, labour practices and community health and safety/grievances. During this stage, the Investment Team's focus will be to obtain necessary quantitative information (for instance, environmental quality monitoring report, records of safety, number of grievances received and addressed, etc.) from the project owner/ promoter/ sponsor.

### **3. Operating Asset**

Apart from the monitoring of the financial data, the Operation & Maintenance (O&M) contractor will ensure that the ESG parameters are adhered to, and the residents continue to maintain the asset. The asset maintenance will also ensure monitoring key ESG criteria viz. use of child labour, segregation of waste and waste management, wastewater treatment, maintenance of DG set, use of landscaped areas as parking spaces, etc. The O&M contractor will ensure that practical and measurable targets are set for periodic monitoring and reporting.

### **4. Exit**

TNSF believes that it will exit from an investment between 8<sup>th</sup> and 10<sup>th</sup> year. At this stage our responsibility will officially end. To generate the intended outcome for society and for the reputation of the Fund, we hope to see that the ESG policy and practices implemented during the investment period will also continue under the new ownership. We propose to exit through REITing in most

cases or listing an ESG Bond. As such, the objective will be to hand over the asset to a purposed investor with defined deliverables, so that the good impact will sustain for the life of the asset.

## Annexure

### 1. Glossary

S.No.	Abbreviation	Description
1.	ADB	Asian Development Bank
2.	BoD	Board of Directors
3.	CEO	Chief Executive Officer
4.	CFO	Chief Financial Officer
5.	CP	Condition Precedent
6.	CRZ	Coastal Regulation Zone
7.	CS	Condition Subsequent
8.	DD	Due Diligence
9.	ESG	Environment, Social and Governance
10.	ESGMS	Environment, Social and Governance Management System
11.	EPC	Engineering, Procurement, Construction
12.	EWS	Economically Weaker Sections
13.	IA	Impact Assessment
14.	IC	Investment Committee
15.	IFC	International Finance Corporation
16.	IMO	Impact Monitoring Officer
17.	LIG	Lower Income Group
18.	O&M	Operation & Maintenance
19.	NOC	No Objection Certificate
20.	NGO	Non-Governmental Organization
21.	OHS	Occupational Health and Safety
22.	PPM	Private Placement Memorandum
23.	RERA	Real Estate Regulation Authority
24.	SPCB	State Pollution Control Boards
25.	SPV	Special Purpose Vehicle
26.	TNIDB	Tamil Nadu Infrastructure Development Board
27.	TNIFMC	Tamil Nadu Infrastructure Fund Management Corporation
28.	TNSF	Tamil Nadu Shelter Fund
29.	UNPRI	United Nations Principles for Responsible Investment
30.	WBG	World Bank Group