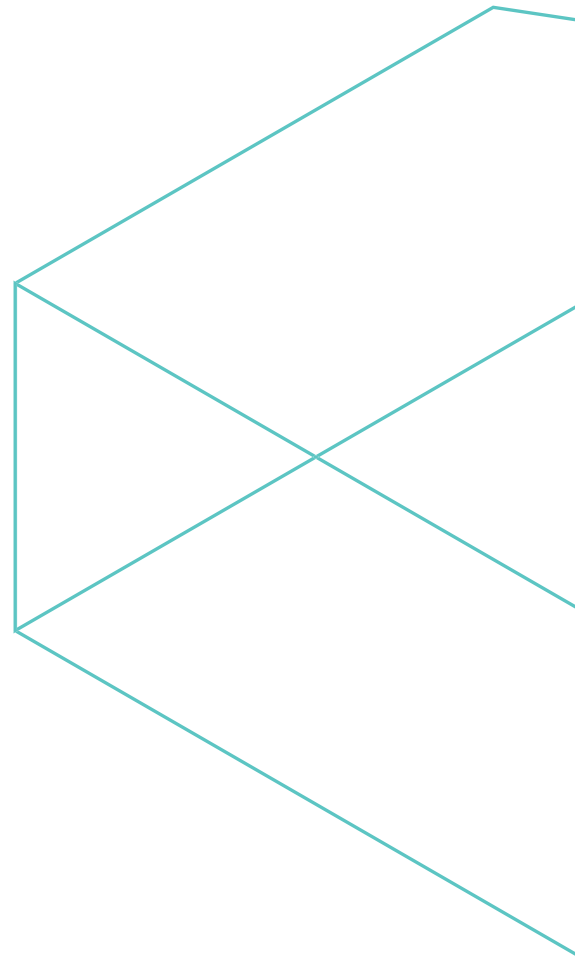




Global Systematic Investors LLP

Responsible Investment Policy

March 2023





Introduction

The effect that humanity's activity has on our planet is becoming increasingly apparent. The consequences of our growing consumption of natural resources now threaten the future not just of other species but of our own as well. Many governments have recognised the danger and have begun to implement regulations to try to reverse this trend. Companies, organisations, and individuals are also changing their behaviours, partly in response to new regulations but also to be part of the solution, rather than contribute to the problem.

The investment community has been amongst those addressing the issues. There is a growing number of investment strategies designed to deal with environmental issues, social issues, ethical concerns, or governance structures. There have, of course, been many different iterations of responsible investing going back decades. The difference now is that there is a focus on the consequences to society of the activities of companies into which we, as investors, commit our clients' capital.

At GSI we believe that we have a moral and fiduciary obligation to conduct ESG screening; the Paris Agreement of 2015, signed by global leaders, pledged to keep the increase of global temperatures below 2°C of pre-industrial levels. We can play our part, by investing in companies which prioritise good ESG practice. Given similar levels of risk and return, these companies are also more appealing to investors.

We build portfolios sensibly and systematically, investing in a wide range of companies across global markets with a tilt toward small and mid-cap companies and toward factors such as value and profitability. Research tells us that companies displaying these factors offer the potential for higher returns over the long-term. We also consider a company's approach towards environmental, social and corporate governance (ESG) issues. We review ESG ratings of every company we invest in, which informs our investment decision alongside the other factors we consider.

Factor-Based Investment Strategy

Our goal is to give investors exposure to a range of well-understood factors that are strongly supported by the academic and practitioner literature. The factors that we principally seek exposure to are:

- Market factor - broad exposure to equities across global markets.
- Size factor – smaller company stocks have higher expected returns than larger companies.
- Value factor – stocks trading at lower prices have higher expected returns compared to stocks trading at higher prices.
- Profitability factor – companies generating higher profits, on average, have higher expected returns.
- Momentum factor – this is captured passively.

Each of these factors contributes independently to expected returns. We form portfolios by first tilting towards smaller cap stocks whilst maintaining sector diversification. All stocks are ranked on a range of value and profitability metrics including book-to-market, EBITDA/Enterprise-Value etc. A composite value/profitability score, which we call a Value Score for simplicity, is formed for each stock based on these metrics. The size tilted portfolio is then tilted towards higher value stocks by increasing or decreasing company weights depending on the Value Score.



An additional feature is that the degree to which we tilt towards our value score is somewhat less for very large stocks and higher for smaller stocks. This way we avoid excessive under-weights or over-weights of very large companies relative to their market weights. It also means that our “active weight” in general is more evenly distributed across the size ranges of the portfolio leading.

We believe in diversification across markets, stocks and sectors, which helps to reduce downside return risks. By paying more attention to diversification, we are able to design portfolios that have better risk/return profiles than market-weighted indices, which tend to be dominated by large-cap stocks and relatively few sectors.

GSI currently manage two strategies – The Global Sustainable Value Fund and the Global Sustainable Focused Value Fund. The ‘Focused Value Fund’ has a stronger value tilt than the Global Sustainable Value Fund and takes larger positions away from a market-weighted index.

All GSI funds are managed responsibly and incorporate sustainability in the investment decision process

ESG Integration

Assessing a company’s approach to environmental, social and corporate governance (ESG), helps to inform our systematic investment process.

When we research and analyse a company’s factor potential, its ESG risk rating helps to inform our view. Is a company attempting to reduce its impact on the environment? How does it manage its relationships with employees, suppliers and customers, not to mention the community within which it operates? How is the company led, how are executives paid, and is the business well-audited? We look at a company’s ESG risk rating alongside other factors like value, profitability and size. This holistic approach allows us to choose sustainable assets with the highest return potential for our investors.

What is Sustainable Investing?

We define sustainable investing as a long-term investment strategy that incorporates environmental, social, and governance considerations into the investment process. To appreciate the scope of sustainable investing, it is necessary to have some knowledge of the ESG components. Each ESG component - environmental, social, and governance – is made up of several constituent criteria. A company’s management of its ESG responsibilities and the ESG risks it faces is measured by aggregating its ESG risk rating on each of the components. The following are examples of the criteria relevant to each of the ESG risk rating components.

Environmental	Social	Governance
Climate change and carbon emissions	Gender and diversity	Board composition
Air and water pollution	Human rights	Executive compensation
Energy efficiency	Labour standards	Audit committee structure
Waste management	Employee engagement	Bribery and corruption
Water Scarcity	Customer satisfaction	Lobbying activities
Biodiversity and deforestation	Community relations	Political contributions

Source: ESG Components Source: “What’s in a name? The Many Dimensions of Sustainable Investing”, Morningstar 2017.



Current ESG components cover a wide range of areas, some of which are less relevant to one company versus another. For example, air and water pollution will be an important element in measuring the environmental impact of a power-generation utility. The same element will have less bearing on a technology company. Nonetheless, the broad scope of all the constituent elements means that current ESG coverage is relatively comprehensive.

The three main approaches to sustainable investing are (a) Themed investing; (b) Exclusion/inclusion-based investing; and (c) ESG integration. Each approach captures sustainable investing differently and, consequently, each has a different outcome.

We believe that an approach that uses ESG integration, while carefully managing the key factors and characteristics that drive expected return and risk, we can deliver a sustainable investment strategy that is appropriate for investors' core exposure to global developed equity markets.

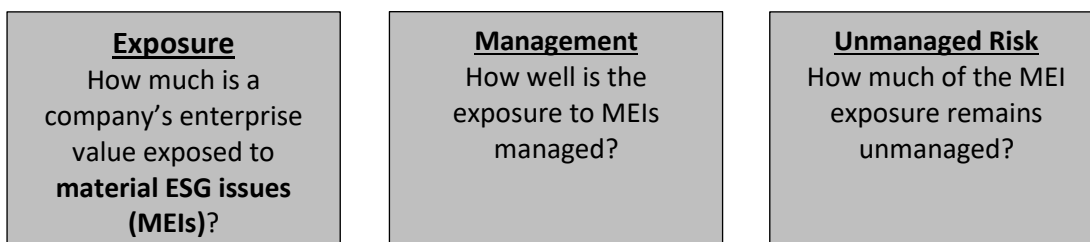
Responsible Investment Approach

We employ a proprietary systematic approach to investing, which determines the companies in which we invest and the amount to be invested in each company. The systematic approach used by us employs current equity prices and fundamental company data sourced from independent data providers. Using this data, we take into consideration each company's valuation characteristics, which include its price-to-book ratio, a composite measure of relative profitability, and net distribution-to-price ratio, when determining the eligibility of a company and the amount to be invested in that company. In addition, we categorise a company based on its market capitalisation, the relative size of the company's sector, and the country in which it is listed.

We also bias our investments towards companies that are assessed to have better risk ratings with respect to environmental, social and governance (ESG) criteria in determining the weight of that company in a portfolio. The ESG criteria cover companies' exposure to and management of the following:

- Environmental issues: such as climate change and carbon emissions, air and water pollution, and energy efficiency;
- Social issues: such as gender and diversity, human rights, and labour standards; and
- Governance issues: such as board composition, executive compensation, and audit committee structure.

ESG risk ratings measure the following three main criteria:





Exposure and Management

Material ESG Issues (MEIs) are assessed at the sub-industry level. Sustainalytics has identified a total of 20 MEIs across all sub-industries. Examples include: Carbon Emissions, Human Rights, Resource Use, Land Use, and Biodiversity.

However, for individual companies, only some of the MEIs are relevant. Companies in certain industries may naturally have a higher exposure to some MEIs rather than others. For example, airlines are highly exposed to carbon emissions. Textile companies are often exposed to human rights issues in the low-wage countries where clothes are generally produced. Rather than assessing companies and sub-industries on the exact same criteria across industries, each firm is assessed on the MEIs that are most important for that particular type of company and not others.

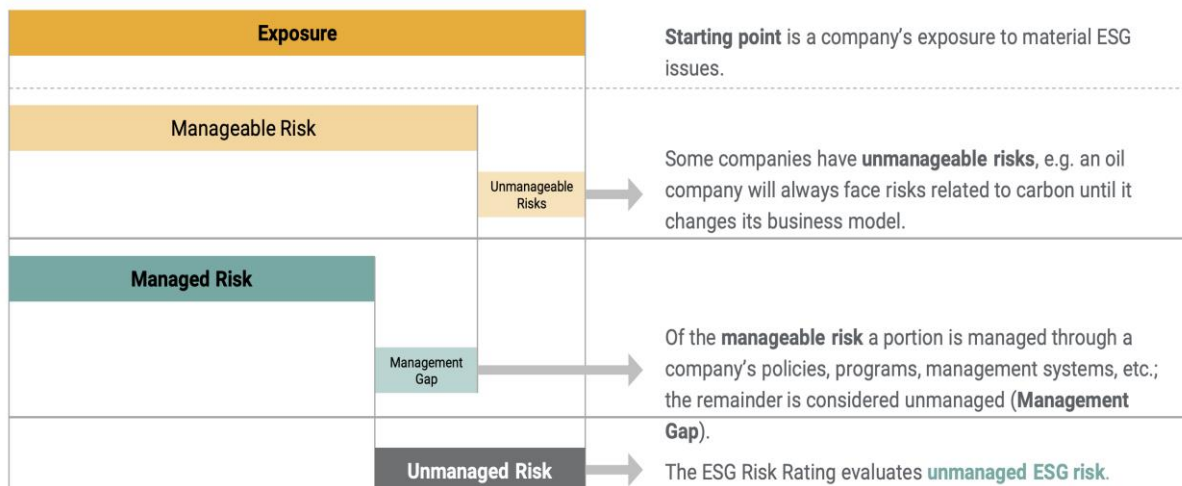
The next question refers to how well a company manages any potential exposure to a set of MEIs. Exposure to MEIs is often unavoidable given that a company operates in a certain industry such as textiles. However, companies can still differentiate themselves from their competitors in terms of how well they manage these exposures. Do textile companies actively check their suppliers with regard to potential human rights violations, environmental issues, etc. or do they ignore these issues?

Examining companies from these two MEI angles, namely MEI exposure and MEI exposure management gives us a more comprehensive picture of how companies operate along the ESG exposure/management dimensions.

Unmanaged ESG Risk

Unmanaged risk refers to the component of a company’s MEI exposure that is currently not managed by the company, either because the company has so far neglected to do so or because that component is unmanageable. For example, oil companies, airlines, etc. have exposure to carbon that is unavoidable, at least given the current state of technology.

The different components of MEI exposure can be illustrated using the following diagram.



Source: Sustainalytics.



Regardless of whether any unmanaged risk is manageable (called the “management gap” in the diagram above) or unmanageable, this component has an impact on the enterprise value that is at risk due to its existence. As a result, the final ESG risk rating is calculated by summing up all individual MEI unmanaged risk scores. This represents the risk to the enterprise value of a company due to the existence of these MEIs and how the company management deals with these issues. This risk may arise due to regulatory actions a company might be exposed to, potential lawsuits arising from unmanaged MEIs, strike action by the workforce, consumer boycotts, adverse publicity, etc.

Conceptually the new ESG risk ratings therefore, suggest a stronger link between ESG risk and financial risk for a company than the previous ESG scores. This highlights the fact that even if you as a company manager or as an investor don’t care about ESG per se, you should still be aware of the financial risk that may result from material ESG risk exposures and how companies manage those exposures.

Where a comprehensive range of ESG indicators is not available, ESG risk ratings will be derived from the information available. Not all information is equally useful, so ratings will be based on the information that best represents a company’s ability to manage key ESG issues. The portfolio characteristics are reviewed to ensure that, after ESG risk ratings have been integrated with companies’ value and size characteristics, each portfolio retains its target exposures to regions, sectors and smaller companies.

ESG data and risk ratings will be sourced from one or more specialist third party ESG data providers and may be supplemented by internal research. From time to time, events concerning a specific company may happen faster than can be incorporated and delivered by a third-party provider. In these circumstances, we may modify the ESG risk ratings to reflect current events which have yet to be reflected in the data provided externally.

Fossil Fuels and Greenhouse Gas Emissions

We recognize that modern society has a responsibility to balance the needs of today’s population against the consequences for future generations and the environment. To this end we believe that it is neither feasible nor desirable to exclude all companies involved in the production and use of fossil fuels and their derivatives, nor should we reduce our greenhouse gas exposure to zero. Instead, we believe a progressive approach is required, one where we reduce the exposures to a lower, more acceptable level. We aim to achieve this by significantly reducing our overall exposure to fossil fuels and greenhouse gas emissions while, in these sectors, having a higher investment in companies that have a better record on managing their environmental responsibilities and a lower (or zero) investment in those firms with a poor record on managing their environmental responsibilities.

The result is that we aim to reduce our fossil fuel exposure to half that of the benchmark. Likewise, we aim to reduce our greenhouse gas intensity to half that of the benchmark.

Exclusions

There are companies that we deem eligible for exclusion from investment. These companies have significant involvement in the exploitation, manufacture, or distribution of materials, products, or services that we believe merit their exclusion. Companies with significant involvement, defined as producing greater than 10% of the firm’s revenues, in the following product involvement categories are deemed eligible for exclusion:



Arctic Oil & Gas, Oil Sands, Shale Energy, Thermal Coal, Genetically Modified Plants, Palm Oil, Pesticides, Cannabis, Tobacco, Fur & Specialty Leather, Adult Entertainment, Gambling, Military Contracting, Riot Control Small Arms.

In addition, companies that are in violation of the United Nations Global Compact are also deemed eligible for exclusion.

Reporting

We provide stock-level data and portfolio returns to Morningstar who publish fund analysis on their website. This analysis includes detailed sustainability scores for each of the funds it analyses.