



STEWARDSHIP CODE REPORT 2020

Global Systematic Investors LLP (“GSI”)

What is the Stewardship Code?

The UK Stewardship Code 2020 (the “Code”) sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of ‘apply and explain’ Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

What are the principles?

The Code comprises twelve principles generally grouped into four sections whereby Signatories should:

Purpose and Governance

1. explain how their purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society;
2. disclose their policies relating to governance, resources and incentives support stewardship;
3. manage conflicts of interest to put the best interests of clients and beneficiaries first;
4. identify and respond to market-wide and systemic risks to promote a well-functioning financial system;
5. review their policies, assure their processes and assess the effectiveness of their activities;

Investment Approach

6. take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them;
7. systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities;
8. monitor and hold to account managers and/or service providers;



Engagement

9. engage with issuers to maintain or enhance the value of assets;
10. where necessary, participate in collaborative engagement to influence issuers;
11. where necessary, escalate stewardship activities to influence issuers;

Exercising Rights and Responsibilities

12. actively exercise their rights and responsibilities.

The following explains how GSI fulfils its obligations with respect to the Code using guidance provided by the Financial Reporting Council.



PRINCIPLE 1

Asset managers should explain how their purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Reporting Expectations

Context

Signatories should explain:

The purpose of the organisation and an outline of its culture, values, business model and strategy; and

Their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

Activity

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.

Outcome

Signatories should disclose:

How their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and

An assessment of how effective they have been in serving the best interests of clients and beneficiaries.

GSI's Approach

Context

GSI's aim is to design, build and deliver portfolios that have better risk and return profiles than traditional, market-weighted indices while integrating sustainability risk to our investment decisions. We have a systematic, disciplined approach which is robust, and built on academic research and empirical evidence. We are long-term investors, delivering higher returns for our clients through diversified portfolios with good ESG ratings, high capacity, low turnover and low transaction costs.

At GSI, we take the evidence from academic research in financial markets and translate it into sensible investment strategies. Our main aim is to deliver improved returns for our clients over the long-term, through 'factor investing'. The factors we look for include size, value and profitability. In addition, we incorporate how companies manage their environmental, social and governance (ESG) responsibilities. The results of these factors inform our view when considering an investment for our portfolio.



Activity

We believe that our careful management of our clients' assets, using well diversified portfolios, combined with a clear and transparent approach to investing, is the best approach to the effective stewardship of our clients' assets.

Outcome

Our beliefs and culture are consistent throughout our team and across all our strategies. This consistency means that there is no conflict in how we manage assets in different funds. In fact, it drives our efforts to continually seek to improve our investment strategies. We believe that this enables us to be very effective in serving our clients' needs and delivering the expected investment experience.



PRINCIPLE 2

Asset managers should disclose how their policies relating to governance, resources and incentives support stewardship.

Expectations

Activity

Signatories should explain how:

Their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;

They have appropriately resourced stewardship activities, including:

- their chosen organisational and workforce structures;
- their seniority, experience, qualifications, training and diversity;
- their investment in systems, processes, research and analysis;
- the extent to which service providers were used and the services they provided; and

How performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making.

Outcome

Signatories should disclose:

How effective their chosen governance structures and processes have been in supporting stewardship; and

How they may be improved.

GSI's Approach

Activity

GSI has a robust governance process, which comprises several key committees with oversight of the critical areas of the business. A strength of GSI's business is that it is 100% owned by individuals who are all actively involved in the running of the business. The members of the governance committees are all owners of the firm and have every incentive to ensure that the business operates properly.

All members of the governance committees are seasoned professionals, each with many years of relevant experience.

To achieve the best results while being a relatively small business, GSI outsources areas of operations where we believe that the business and our clients will benefit. We outsource fund services to Gemini Capital Management (Ireland) Limited, who operate an umbrella fund of which our funds are sub-funds; we outsource our trading to Vident Investment Advisory, a US-based



advisory firm, who coordinates our global trading activity; and we outsource our compliance to Compliancy Services, a specialist compliance consultancy.

In the same vein, we do not conduct research internally. Instead we seek the best providers of data and research to suit our needs. Consequently we obtain data from Factset, a specialist financial data and software company. For information on companies' sustainability risks, we source research and data from Sustainalytics, a subsidiary of Morningstar and one of the leading providers of ESG research and data. Finally, we have a contract with Style Analytics to provide analysis and reports on our investments.

All GSI funds incorporate sustainability in the investment decision process. There is no discrepancy between funds, which serves to ensure that all clients receive a consistent and clear approach to stewardship in our investment approach.

All the team at GSI are partners in the firm and share in its successes and failures. Therefore we are all incentivised to make sure that the firm is effectively managed and run in the best interest of our clients.

Outcome

We believe that our current governance structure works very well for our business. We also consider our philosophy of outsourcing operations to specialist organisation is extremely effective.

We continually look for ways to improve our governance and stewardship structures. As we grow, we will be able to devote more resources to these efforts, which we are confident will build on our effectiveness.



PRINCIPLE 3

Asset managers should manage conflicts of interest to put the best interests of clients and beneficiaries first.

Reporting Expectations

Context

Signatories should disclose their conflicts policy and how this has been applied to stewardship.

Activity

Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

GSI's Approach

Context

At GSI we understand that some conflicts of interest are inevitable. We strive to identify and manage any conflicts of interest in the best interests of our clients. We believe that transparency and disclosure are the best antidote to the potential negative effects of conflicts of interest.

Activity

GSI has a clearly-articulated policy on managing conflicts of interest which forms part of the firm's policies and procedures. A summary of our policy on managing conflicts of interest can be provided on request from inquiries@gsillp.com.

Where a conflict of interest has arisen, the issue reviewed and, if appropriate, brought to the Compliance Committee. The Committee reviews the issue and determines the best approach to manage the conflict of interest.

Outcome

A potential conflict of interest might be the approach GSI takes in our sustainability program. We endeavour to make our approach to investing, including how we incorporate sustainability risks, clear to all our clients and prospective investors. This allows clients and prospective clients to consider whether our approach to sustainable investing is in line with their views.



PRINCIPLE 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Reporting Expectations

Activity

Signatories should explain:

How they have identified and responded to market-wide and systemic risk(s), as appropriate;

How they have worked with other stakeholders to promote continued improvement of the functioning of financial markets;

The role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples; and

How they have aligned their investments accordingly.

Outcome

Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

GSI's Approach

Activity

GSI is covered by the FCA's Senior Managers and Certification Regime (SMCR), which is tailored for companies of different sizes and varying importance to market-wide and systemic risks. As a small asset manager, GSI is classified as a having low risk in relation to market-wide and systemic risks.

GSI is a single-business entity, focusing solely on asset management. Our business focus, ownership structure, and our governance structure combine to create a stable and reliable approach to our asset management business.

We design, build and deliver portfolios that have better risk and return profiles than traditional, market-weighted indices. We employ a systematic, disciplined approach which is robust, and built on academic research and empirical evidence. We are long-term investors, delivering higher returns for our clients through diversified portfolios with high capacity, low turnover and low transaction costs.

We believe that our business focus and approach to investment are prudent and represent a low risk potential in relation to market-wide risk and systemic risks.



Outcome

Due to our relatively small size, singular business focus, and our investment approach, we believe that our business and our investments represent a low risk potential in relation to market-wide risk and systemic risks.

We promote our approach to investing to the investing market, both to competitors and to potential investors. We have done this through our own seminars and information programs, and through externally organised events.



PRINCIPLE 5

Asset managers should review their policies, assure their processes and assess the effectiveness of their activities.

Reporting Expectations

Activity

Signatories should explain:

How they have reviewed their policies to ensure they enable effective stewardship;

What internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and

How they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

GSI's Approach

We believe that an external, arm's length review combined with robust internal review and oversight provides the best mechanism for reviewing policies and maintaining an effective approach to stewardship.

Activity

We allocate capital in our investment strategies based on widely published and accepted academic research combined with empirical evidence and internal experience.

There are decades of research on how equity markets work and the most effective ways to access those markets. We target well recognised investment factors – value, size, and profitability – when choosing which companies to invest in and how much to invest. This approach has been rigorously studied, tested, and implemented over several decades.

The risk of investing in equities is well known. The most effective antidote to risk in equities is diversification. All our portfolios are well diversified, typically with holdings numbering in the hundreds of names.

Liquidity risk is important to most investors, even those with long-term investment horizons. Effective diversification not only reduces volatility but increases liquidity in a portfolio. We monitor our funds to make sure that liquidity risk does not become an issue for our investors.



Sustainability risk is a more recent concern for investors. We use research from Sustainalytics, a leading provider of ESG research and data, in making our investment decisions. Our aim is to reduce the investments' carbon footprint, greenhouse gas emissions, and a variety of other important environmental, social, and governance concerns.

Outcome

Feedback from clients and researchers has caused us to refine and improve our investment approach, especially with regards to sustainability. We continue to work closely with our clients to improve our approach to investing and how we report on our investments.



PRINCIPLE 6

Asset managers should take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Reporting Expectations

Activity

Signatories should explain:

The approximate breakdown of:

- their client base, for example, institutional versus retail, and geographic distribution; and
- assets under management across asset classes and geographies.

The length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

What they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.

Outcome

Signatories should explain:

How they have taken account of the views of clients and what actions they have taken as a result.

Where their managers have not followed their stewardship and investment policies, and the reason for this.

GSI's Approach

Activity

GSI is the appointed investment manager for certain Dublin-based UCITS funds. These funds are sub-funds of the GemCap Investment Funds (Ireland) plc umbrella fund, which is operated and distributed by Gemini Capital Management (Ireland) Limited.

Total assets under management, as at 31 December 2021, was £105 million.

The funds are available for investment in the UK and Ireland to clients of financial advisers through a variety of wrap platforms.

Currently approximately 100% of the clients in the funds are UK-based.



All funds are equity funds and, therefore, we advise investors that they should have a long-term perspective when investing in our funds.

GSI works closely with Gemini Capital Management to ensure that the offering documents, including the prospectus and KIIDs, provide the appropriate information for investors to make informed decisions. In addition, GSI provides more information in its fund factsheets and on its website.

The factsheets and website provide information on our stewardship and investment activities, particularly with regards to how we incorporate sustainability into the investment process.

Outcome

We work closely with financial advisers to understand the needs of their clients. This approach has informed the design of our funds, especially concerning issues such as investment in certain product lines, for example tobacco or adult entertainment, which are both excluded.



PRINCIPLE 7

Asset managers should systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Reporting Expectations

Context

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

Activity

Signatories should explain the processes they have used to:

Integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries; and

Ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Outcome

Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

GSI's Approach

All GSI's funds integrate environmental, social, and governance concerns into the investment decisions. As part of this approach we target a significant reduction in the carbon footprint of our investments, measured by carbon intensity, and a significant reduction in greenhouse gas emissions. In addition, we have adopted a set of exclusions related to product involvement where we believe there is a conflict with the United Nations Sustainable Development Goals.

Activity

Our approach to stewardship and incorporating environmental, social, and governance issues into the investment decision is clearly articulated on our website.

Outcome

We use external providers to analyse the effect of our investment processes on the sustainability profiles of our funds.



In all cases there is clear and significant improvement in the sustainability characteristics of the funds.



PRINCIPLE 8

Signatories monitor and hold to account managers and/or service providers.

Reporting Expectations

Activity

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Outcome

Signatories should explain how the services have been delivered to meet their needs;

GSI's Approach

Activity

In the context of stewardship and monitoring, the key service provider to GSI is Sustainalytics, a specialist provider of ESG data and research. Sustainalytics was chosen as the provider of ESG research due to their approach to ESG scoring and the depth and breadth of their coverage.

GSI receives ESG data and research from Sustainalytics and incorporates the data into our investment process. As part of the process we review all the relevant data, including ESG data, by sampling on significant changes in the fund(s).

Outcome

We monitor the data for coverage, i.e. how many companies in our investment universe are covered by the ESG data; and we monitor for reasonableness, i.e. does the ESG data we receive make sense? The latter is achieved through sampling by reviewing significant changes in the fund(s).



PRINCIPLE 9

Signatories engage with issuers to maintain or enhance the value of assets.

Reporting Expectations

Activities

Signatories should explain:

how they have selected and prioritised engagement (for example, key issues and/or size of holding);

how they have developed well-informed and precise objectives for engagement with examples;

what methods of engagement and the extent to which they have been used; the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and

how engagement has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.

GSI's Approach

Activities

GSI does not engage directly with companies. Our investment approach is systematic and involves investing across a diverse range of companies, using an approach based on well documented academic and empirical research.

If a company does meet our environmental, social, or governance criteria, we will reduce investment in the company, possibly excluding it entirely.

Our view is that our investment actions are more effective for our clients than our engaging with investee companies would be.

Outcome

As we do not engage with companies, there is no effective reporting outcome.



PRINCIPLE 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Reporting Expectations

Activity

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

Outcome

Signatories should describe the outcomes of collaborative engagement.

GSI's Approach

As noted above, we do not engage directly with companies.

Activity

However, we fully agree with collective engagement in circumstances where our clients' objectives coincide with those of other interested parties.

There are several investment associations where collective engagement is facilitated, and these can be useful in coordinating meetings and subsequent agreed action.

Where appropriate and in our clients' best interests, we would participate in collective engagement.

Outcome

To date we have not participated in any collective engagement.



PRINCIPLE 11

Reporting Expectations

Activity

Signatories should explain:

how they have selected and prioritised issues, and developed well-informed objectives for escalation;

when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples; and

how escalation has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

GSI's Approach

As noted above, we do not engage directly with companies.

Activity

As we do not engage with companies, we do not have processes to escalate engagement with investee companies.

However, if a company does meet our environmental, social, or governance criteria, we will reduce investment in the company, possibly excluding it entirely. This may result in us selling some or all of a fund's holdings in that company.

Outcome

To date we have not engaged with companies. However, we have reduced or sold a fund's holdings in a company when it did not meet our ESG criteria.



PRINCIPLE 12

Exercising Rights and Responsibilities

Reporting Expectations

Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6.

Context

Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

disclose their voting policy, including any house policies and the extent to which funds set their own policies;

state the extent to which they use default recommendations of proxy advisors;

report the extent to which clients may override a house policy;

disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and

state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'.

Activities

For listed equity assets, signatories should:

disclose the proportion of shares that were voted in the past year and why;

provide a link to their voting records, including votes withheld if applicable;

explain their rationale for some or all voting decisions, particularly where:

- there was a vote against the board;
- there were votes against shareholder resolutions;
- a vote was withheld;
- the vote was not in line with voting policy.

explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf; and

explain how they have monitored what shares and voting rights they have.



Outcome

For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.

GSI's Approach

GSI's approach to voting proxies is laid out in our Proxy Voting Policy, which can be found on our website at www.gsillp.com.

When voting, GSI will consider what is in the best interests of our clients. For example, our voting policies generally oppose increases in management control that come at the expense of shareholders.

GSI will generally abstain from voting when we consider not voting to be in the best interests of our clients. If we vote, we will publish a summary of our voting on our website.

Activities

The funds current AuM is such that the holdings in each investee company is very small. Given this, and the costs of voting proxies to the funds, we have not yet voted any proxies on behalf of the funds.

Nonetheless, we are in the process of engaging with a proxy notification provider, which will enable us to prioritise proxies and allow us to vote on holdings where we believe that the costs to the funds justify casting the votes on their behalf.

Outcome

As we have yet to vote any proxies, there are no examples to provide.