Sustainability

- Our sustainability process is well-integrated with our factor tilts.
- We take ESG risk ratings into account provided by Sustainalytics.
- We also use product involvement screens to our sustainable investment process.
- We exclude companies that violate United Nations Global Compact principles.
- We target lower exposure to fossil fuels and greenhouse gas emissions.
- Morningstar has given the fund a Low Carbon designation.

INTRODUCTION

Sustainalytics new ESG risk rating measures risk exposure rather than a pure assessment of a company's ESG credentials. We believe this to be a superior indicator of a company's ESG management, leading to more effective control of Environment and Social issues and potentially better financial outcomes.

At GSI, we have been integrating ESG ratings into our factor-based investment process since the end of 2019. We achieve this by combining ESG information with factor exposure data for each company and ensuring that our portfolio has appropriate tilts to size, value and profitability, and diversified at stock and sector levels. In this way, our portfolio tilts towards companies with lower ESG risk ratings whilst maintaining the required exposure to factors related to higher expected return. The ESG data is provided by Sustainalytics, a leader in this field.

ESG risk ratings measure to what extent the enterprise value of a company is at risk due to a company's exposures to ESG issues that are material to its business. Rather than volatility, the risk rating can be viewed as a downside risk measure.

According to Sustainalytics, the metric is a risk measure rather than a pure assessment of a company's ESG credentials which was the case for the previous ESG score. The risk metric is determined by adding up the unmanaged risk factors of a company with regards to the most pertinent ESG issues for the company.

For example, a company might be at higher risk of regulatory/legal action or negative publicity if material ESG issues (MEIs) such as carbon exposure, labour rights, etc. are not effectively managed.

ESG risk ratings measure the following three main criteria:

Exposure	**Management**	**Unmanaged Risk**
How much is a company's enterprise value exposed to **material ESG issues (MEIs)**?	How well is the exposure to MEIs managed?	How much of the MEI exposure remains unmanaged?

SUSTAINABLE DEVELOPMENT GOALS

Another perspective on sustainability is provided by the Sustainable Development Goals (SDGs) which were set out by the United Nations and adopted by its member countries in 2015. These goals are aimed at reducing poverty, improving health and education, reducing inequality, increasing economic growth as well as tackling climate change and protecting the environment. They are summarised in the figure below.

ADDITIONAL SCREENS

To better align our portfolio with the SDGs, we have adopted a set of exclusions related to areas of product involvement that we believe conflict with those goals. These exclusions cover a range of product areas including Energy, Environment, Health and Wellbeing etc. The specific exclusions are set out in the table below.

Product Area	Product Involvement[1]	GSI Policy
Energy		
	Arctic Energy	Exclude
	Oil Sands	Exclude
	Shale Energy	Exclude
	Thermal Coal	Exclude
Environment		
	Greenhouse Gas Emissions[2]	Reduce by 50%
	Fossil Fuels[3]	Reduce by 50%
	Genetically Modified Plants	Exclude
	Palm Oil	Exclude
	Pesticides	Exclude
Health & Wellbeing		
	Cannabis	Exclude
	Tobacco	Exclude
	Adult Entertainment	Exclude
Business Practices		
	Animal Testing	Exclude
	Fur and Speciality Leather	Exclude
	Whale Meat	Exclude
	Gambling	Exclude
	Predatory Lending	Exclude
Defense and Military		
	Controversial Weapons	Exclude
	Military Contracting	Exclude
	Riot Control	Exclude
	Small Arms	Exclude
UN Global Compact		
	UN Global Compact Violators	Exclude

[1] Product involvement is defined at the level of 10% of revenues or more

[2,3] See text for definitions

The exclusions under Energy relate to those companies that have more extreme environmental impact – Arctic Energy, Oil Sands (also known as Tar Sands), Shale Energy and Thermal Coal. We do not exclude Nuclear Power production as we see nuclear energy as playing a vital role in the transition to low carbon energy production.

Exclusions that relate to the environment are Genetically Modified Plants, Palm Oil and Pesticides. Other exclusions that we apply are standard screens about health and welfare. These include companies involved in tobacco, cannabis, gambling, and adult entertainment. Screens related to animal welfare include fur and speciality leather and whale meat. We also apply screens related to involvement in controversial weapons, military contracting, riot control and small arms.

We do not apply screens related to alcohol, pork, abortion, contraceptives, or stem cell research as these are typically exclusions based on religious grounds.

FOSSIL FUELS AND GREENHOUSE GAS EMISSIONS

We target a 50% reduction in exposure to greenhouse gases and fossil fuel exposure.

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 (GHG) exposure to zero. Instead, we believe a progressive approach is required to reduce exposures to a lower, more acceptable level. We aim to significantly reduce our exposure to fossil fuels and greenhouse gas emissions and have a higher investment in companies with a better record of managing their environmental responsibilities and a lower (or zero) investment in those firms with a poor record of managing their environmental responsibilities.

We, therefore, target a level of fossil fuel exposure of half that of the benchmark (the Solactive GBS Developed Markets Large & Mid Cap Index) or lower. Companies considered to be exposed to fossil fuels are Oil & Gas Producers, Oil & Gas Power Generators, Oil and Gas Products and Services, Thermal Coal Extraction or Thermal Coal Power Generation.

We also target an aggregate level of GHG intensity of half that of the benchmark or lower. To measure the GHG intensity of a company, we use the standard definition set by the Task Force on Climate-Related Financial Disclosures (TCFD), which is annual GHG Scope 1 & Scope 2 emissions divided by annual revenues.

Due to the lower carbon risk and fossil fuel exposure of the fund, it has been given a Low Carbon designation by Morningstar.[1]

UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact (UNGC) is a set of ten principles to encourage businesses worldwide to adopt sustainable and socially responsible policies. The principles relate to respect for human rights, socially responsible labour policies, a sustainable approach to the environment, and anti-corruption policies. Sustainalytics monitors over 20,000 issuers worldwide on their compliance with UNGC principles and identifies those companies that are non-compliant. GSI expects companies to operate

within these norms and standards, and therefore we will also exclude from investment companies that violate the UNGC principles.

PORTFOLIO IMPACT

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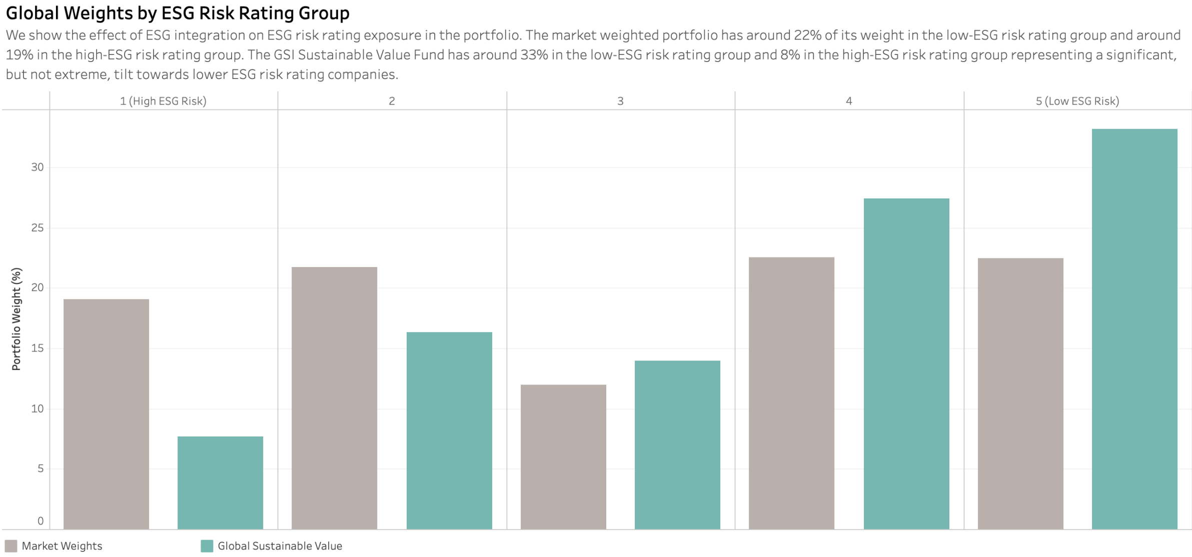
[1] Morningstar carbon metrics are asset-weighted portfolio calculations based on Sustainalytics company carbon-risk research. Based on two of these metrics—Carbon Risk Score and Fossil Fuel Involvement %—funds may receive the Low Carbon designation, which allows investors to easily identify low-carbon funds within the global universe. To receive the Low Carbon designation, a fund must have a 12-month average Portfolio Carbon Risk Score below 10 and a 12-month average Fossil Fuel Involvement % of less than 7% of assets. Source Morningstar.

The reduction in the portfolio's exposure to fossil fuels and greenhouse gas emissions leads to lower weights in some sectors compared to the benchmark, particularly the Energy and Utility sectors. However, the portfolio remains well-diversified across sectors. After applying the exclusions related to product involvement and UNGC violators, the critical characteristics of the portfolio remain unchanged. As before, we tilt towards mid and small-cap companies, and we have strong tilts towards higher value stocks and stocks with better ESG risk ratings (ESG Group 5 has the lowest risk ratings).



Source: GSI, Sustainalytics, FactSet. As of 31/12/2021 and based on a large/mid developed markets universe.

CONCLUSIONS

We believe that using ESG risk ratings and additional sustainability criteria aligns our portfolio well with the Sustainable Development Goals of the UN and adds depth to our process of integrating ESG information with our factor-based investment strategy.