GemCap Investment Funds (Ireland) Plc

Investment Manager’s Report

GSI Global Sustainable Focused Value Fund

FULL YEAR REPORT – ENDING DECEMBER 2023

Market highlights

Financial markets entered 2023 with ongoing concerns related to inflation across global economies, exacerbated by the continuing conflict in Ukraine. In the US, the Federal Reserve maintained its stance of raising rates to combat inflationary pressures, raising the target range of its benchmark rate from 4.25-4.5% in January to 5.25-5.5% in July where it was held until the end of the year. Other central banks also increased rates, including the Bank of England and the ECB. There was significant disruption in the banking sector in the US and Europe. In the US, there were three bank failures (SVB, Signature Bank and Silvergate Bank), largely due to the poor management of their balance sheets in the rapidly changing interest rate environment. These failures exposed stresses arising from the change in financial conditions and generally caused the stock prices of banks to fall, especially regional banks. However, by the end of June, the Federal Reserve stated that it was confident that there was resilience in the banking system and confidence started to return to the sector. In Europe, successive events related to poor management at Credit Suisse led to its eventual takeover by UBS, thus avoiding a wider run in the sector.

Over the year, the impact of rising rates led to the lowering of the annual change in consumer price indices (CPI) in all key developed countries. For example, in the US, the annual change in CPI peaked in June at 9.1% and ended the year down at 3.4%. In the UK, it peaked in October at 11.1% falling to 4% by year end. Consequently, longer term interest rates fell considerably with the 10-year Treasury yield in the US falling from a peak of 5% in October, to 3.9% at the end of the year – around the same level as where it started the year. However, central banks were still expressing vigilance against potential further inflation and tempered expectations of immediate reductions in rates.

The first half of 2023 saw positive returns in all regions, despite the widespread concerns over persistent inflation and high interest rates. Over the first 6-month period, global developed markets posted a return of 9% in sterling. The most significant factor in the period was the value/growth factor, with growth stocks outperforming value stocks in North America and Europe, although value fared better than growth in Asia Pacific. Larger cap stocks generally outperformed smaller stocks. In addition, companies with higher ESG scores (lower ESG risk ratings) tended to outperform relative to those with lower ratings in the US and Europe. The return of the broad market was strongly dominated by a small number of stocks in the Information Technology, Consumer Discretionary and Communications Services sectors (e.g. Apple, Microsoft, Nvidia, Amazon, etc.), collectively known as the Magnificent Seven. The publicity surrounding innovations in Artificial Intelligence, especially interactive systems such as ChatGPT, has led to markets pricing in high expectations for companies that may benefit from this technology. The Energy sector underperformed over the period, reflecting lower prices across energy markets compared to the elevated levels seen in 2022. Sterling increased over the period by around 5% compared to the US dollar, which lowered the returns of the GBP-denominated share classes, compared to the return of the Fund in USD.

The second half of 2023 also saw positive returns in all regions. Over the second 6-month period, global developed markets posted a return of 7.2% in sterling. The most significant factor in the period was the value/growth factor, with value stocks generally outperforming growth stocks especially in Europe and Asia Pacific. There were no particularly strong patterns linking returns to either size of company or ESG. Financials posted the strongest return across sectors, recovering some of the underperformance in the first half. Sterling increased slightly over the period by around 0.7% compared to the US dollar.

Fund performance review (in GBP)

For the 6 months to 30 June 2023.	
GSI Global Sustainable Focused Value Fund (Class A):	1.15%
Solactive Developed Markets Large & Mid Cap Index (Net):	9.06%
For the 6 months to 31 December 2023.	
GSI Global Sustainable Focused Value Fund (Class A):	7.22%
Solactive Developed Markets Large & Mid Cap Index (Net):	7.22%
For the 12 months to 31 December 2023.	
GSI Global Sustainable Focused Value Fund (Class A):	8.43%
Solactive Developed Markets Large & Mid Cap Index (Net):	16.93%

The GSI Global Sustainable Focused Value Fund has two key features that, in the longer term, we expect to generate higher returns compared to market-weighted broad global equity indices: (i) it tilts by approximately 50% towards value stocks based on a blend of value metrics and (ii) it tilts by approximately 20% towards smaller companies based on market capitalisation. In addition to its value and size tilts, the Fund also tilts by approximately 15-20% towards stocks with higher ESG ratings (i.e., lower ESG risk ratings) as provided by Sustainalytics, a leading provider of ESG ratings.

Over the 1-year period to end December 2023, value stocks significantly underperformed their growth counterparts in North America, whereas value stocks generally outperformed growth stocks in Europe and Asia Pacific. The tilt of the Fund towards value stocks contributed around -3.0% of excess return over the period. Small companies underperformed large companies over the period in North America and Asia Pacific. Overall, the tilt of the Fund towards smaller stocks contributed approximately -3.6% of excess return over the period. Higher ESG scoring stocks (i.e., lower ESG risk rated stocks) generally outperformed lower ESG rated stocks in North America and Europe. However the higher ESG stocks were also more likely to be growth stocks, which the Fund was underweight. Therefore, allocation across ESG groups contributed approximately -0.1% of excess return over the period. The Fund's sector positioning over the period contributed -1.7% to the excess return, mainly due to the underweight in the Technology sector, which significantly outperformed over the period. Much of the shortfall in performance was attributable to the underweight position of the Fund compared to the benchmark in the so-called Magnificent Seven group of mega-cap stocks in the US, which collectively outperformed the global benchmark by just over 50% during the year. On average, the Fund was underweight by around 15% in these stocks (at 2.3% vs 17.4% for the benchmark), leading to a negative allocation contribution of -7.2%.

Outlook

Over 2023, markets adjusted to significant increases in interest rates across the world as inflation was brought under control. Markets are now pricing in a modest reduction in interest rates of around 0.5% over one year in the US and UK. It is widely expected that the Federal Reserve will decrease the target Fed rate further in due course, however the Fed has emphasized that any reductions will be based on data confirming that inflation is at or below its target level of around 2%. The yield curve in the US is heavily inverted, reflecting expectations of lower future interest rates. Many economic commentators expect a period of low to negative growth in 2024 following the recent increase in interest rates. Thus far, however, the US economy in particular has exhibited strong resilience despite the higher rate environment. The OECD currently projects growth across the world of 2.9% in 2024. However, it projects lower growth for the UK and the Euro region of 0.7% and 0.6% respectively.

At GSI, we believe that investors should take a disciplined, long-term view and employ a well-diversified, low-turnover investment strategy, with a view to capturing well-researched factor premia related to the broad equity market, smaller companies and companies trading at low prices compared those trading at high prices.

As responsible investors, we also believe that it is important to consider how companies manage the risks and opportunities related to those environmental, social, and governance (ESG) issues that are relevant to them. We position our Funds so that in aggregate we overweight companies that we believe better manage those risks and opportunities.

The Fund remains well diversified across markets, sectors, and stocks and we remain confident that it is well positioned to perform in line with expectations.

Sustainable Finance

The Fund promotes among other characteristics, environmental or social characteristics pursuant to Article 8 SFDR.

We bias the portfolio towards companies that are assessed to have higher scores with respect to environmental, social and governance (ESG) criteria in determining the weight of that company in the 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;

Governance issues: such as board composition, executive compensation, and audit committee structure.

Furthermore, we exclude from the portfolio companies that fail to comply with the United Nations Global Compact principles for business or derive a significant part of their revenues from activities that are not aligned with the United Nations Sustainable Development Goals.

The ESG scoring process addresses environmental, social and governance issues across a range of topics selected for their relevance from a business and sustainability perspective. The ESG rating from 0-100 is based on a set of underlying cross-industry and industry-specific indicators. Each indicator is scored from 0-100 and weighted according to an industry-specific weight matrix. These include 60-80 cross-industry and industry-specific indicators covering different ESG topics across four pillars:

- **Preparedness:** An assessment is made of how each company's management systems and policies are designed to mitigate material ESG risks. Examples include: health and safety programmes, and targets for hazardous waste.
- **Disclosure:** Assessment of the degree of company transparency on material ESG issues towards investors and other stakeholders. Examples include: tax transparency per country and scope of greenhouse gas emissions.
- **Quantitative Performance:** Evaluation of a company's ESG performance based on targets and quantitative commitments. Examples include: employee turnover rate, carbon intensity and number of fatalities.
- **Qualitative Performance:** Monitoring and assessing a company's involvement in incidents and controversies, which may highlight inadequate company preparedness to manage its ESG risks.

Where a comprehensive range of ESG indicators is not available, ESG 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. Raw ESG ratings are adjusted for regional, sector and size effects. This way, after ESG scores have been integrated with companies' value characteristics, the Fund retains its target exposures to regions, sectors, and smaller companies. ESG data and scores 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 scores to reflect current events which have yet to be reflected in the data provided externally.

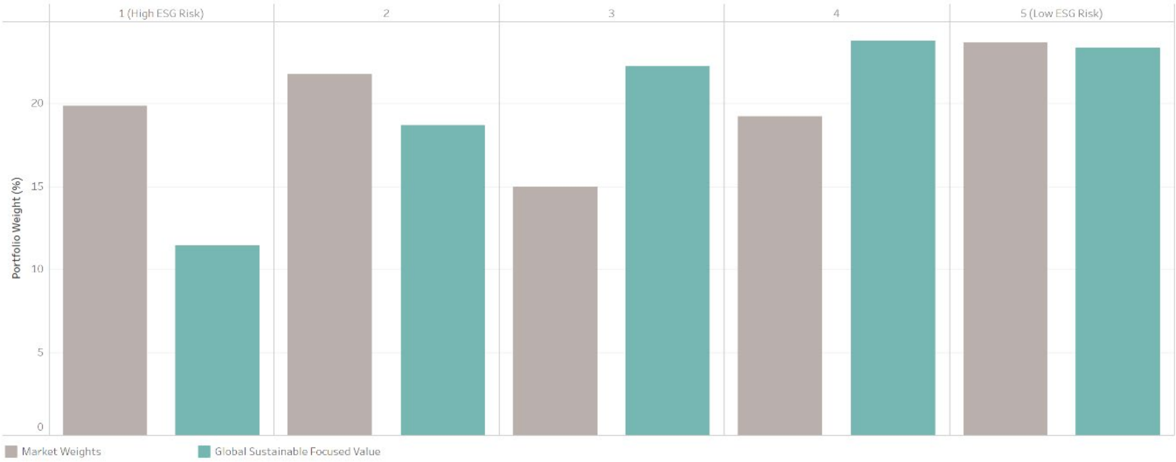
Sustainability risks

While the fund takes account of sustainability risks we have determined that the Sustainability Risk (being the risk that the value of the Fund could be materially negatively impacted by an ESG Event) faced by the Fund is low.

ESG Metrics

The chart below shows the proportion of the Fund allocated to five groups based on ESG risk rating. This shows that the Fund is tilted away from companies with high ESG risk ratings and towards companies with lower ESG risk ratings according to Sustainalytics, compared to the Solactive Developed Markets Large & Mid Cap Index.

ESG Risk Rating Distribution as of 31 December 2023



Source: GSI LLP using data from Solactive and Sustainalytics as of 31 December 2023.

The table below shows portfolio-level statistics for the Fund:

- **Weighted Average ESG Risk Rating** - the weighted average ESG risk rating based on the weights of each portfolio or index (a lower risk rating is better).
- **Weighted Average Carbon Intensity** - the weighted average carbon intensity based on the weights of each portfolio or index. Carbon intensity per company is defined as Scope I and Scope 2 carbon emissions divided by annual revenues. This is the standard as defined by the Task Force on Climate-related Financial Disclosures (TCFD).
- **Fossil Fuel Exposure** - companies are classified as having fossil fuel exposure if they are in the Energy sector; in the Utilities sector (except water utilities or companies involved in renewable power generation); or companies involved in thermal coal (at a level of greater than 10% of annual revenues).
- **Portfolio Environmental Risk Score** - the weighted average Environmental Risk Score as determined by Sustainalytics (a lower risk rating is better).
- **Portfolio Social Risk Score** - the weighted average Social Risk Score as determined by Sustainalytics (a lower risk rating is better).
- **Portfolio Governance Risk Score** – the weighted average Governance Risk Score as determined by Sustainalytics (a lower risk rating is better).

Portfolio Level Statistics for Global Sustainable Focused Value Fund

Name of Fund	Wtd Avg ESG Risk Rating	Wtd Avg Carbon Intensity	Fossil Fuel Exposure
GSI Global Sustainable Focused Value Fund	19.9	40.0	2.7%

Name of Fund	Portfolio Environmental Risk Score	Portfolio Social Risk Score	Portfolio Governance Risk Score
GSI Global Sustainable Focused Value Fund	7.8	9.1	7.1

Sources: FactSet, GSI, Solactive, StyleAnalytics, Sustainalytics, Morningstar.

Further information

For further insights or additional information regarding our investment strategies and recommendations, please do not hesitate to contact our team on inquiries@gsillp.com or visit www.gsillp.com