GSI

# 2023 Annual UK Stewardship Code Report

APRIL 2024

# Safeguarding tomorrow: Stewardship with Purpose.

GSI supports the FRC's mission to promote transparency and integrity and is committed to the highest standards of professionalism and ethics in all that we do. We were immensely proud to have met the expected standards and became a signatory to the UK Stewardship Code in 2023.

Amidst the backdrop of heightened global awareness and urgency surrounding environmental and social issues, there is a growing recognition of the societal and planetary consequences resulting from the activities of the companies in which we invest. Adapting to evolving conditions and changing priorities demands a continuous process of refinement to our stewardship activities.

In 2023, GSI took the significant step of becoming a member of the Institutional Investors Group on Climate Change (IIGCC), building upon our successful Stewardship Code signatory status and the development of comprehensive voting policies the previous year.

The IIGCC membership provides GSI with a valuable platform to collaborate with industry peers, share best practices, and contribute to impactful initiatives aimed at integrating climate considerations into investment decisions, fostering positive environmental and societal impacts.

GSI remains open and flexible ensuring that our stewardship strategies and approaches evolve to match changing conditions accordingly.

We also incorporated nature and biodiversity considerations in our voting guidelines this year, recognising the interconnectedness between healthy ecosystems and long-term financial performance.

We have added to this momentum by joining both the CA100+ and Net Zero Engagement Initiative. These are natural steps in aligning our practices with global investment standards. We are confident that our ongoing efforts will further reinforce our role as responsible stewards of our clients' investments.

GSI has chosen to re-apply to be a signatory to the UK Stewardship Code for 2023 to reaffirm our ongoing commitment and uphold our integrity in our stewardship activities and the Principles of the Code.

For more information on our stewardship activities please visit our website www.gsillp.com

This report has been reviewed and approved by the Management Committee of Global Systematic Investors LLP 30 April 2024.

Garrett Quigley

Managing Partner,
Co-Chief Investment Officer, GSI

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# The UK Stewardship Code 2020

The 2020 UK Stewardship Code 2020 (the "Code") is a set of principles and guidance for asset managers and owners in the UK to promote good governance and responsible investment practices. The code was developed by the Financial Reporting Council (FRC) and replaces the previous version of the code, which was first introduced in 2010.

The code sets out 12 principles for effective stewardship, which include the need for investors to take a long-term approach to investment, to engage with companies on issues of strategy, risk, and performance, and to be transparent about their stewardship activities.

The purpose of the Code is to encourage investors, like Global Systematic Investors (GSI), and other asset managers and asset owners, to take a more active role in the companies in which they invest, and to promote better alignment between the interests of investors and companies.

As the FRC stated in the Code's introduction, "Stewardship is critical to the long-term success of companies and the economy. It is about investing responsibly and sustainably, in a way that considers the long-term interests of clients and beneficiaries, and the wider impact on society."

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, like GSI, to meet the expectations in a manner that is aligned with our own business model and strategy.

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 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.

In order to become a signatory to the Code, organisations are required to produce an annual stewardship report explaining how they have applied the Code in the previous 12 months. The FRC then evaluates these reports against its assessment framework, and those that meet the reporting expectations will be listed as signatories to the Code.

GSI fully endorses the principles promoted by the UK Stewardship Code and we aim to adhere to its principles and comply with its guidelines. This report outlines our approach to stewardship in the calendar year 2023, as well as how our policies and procedures meet the Code's criteria.

Principle 1:
Purpose, Strategy and Culture

Principle 2:
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Principle 10:
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Principle 11:
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Principle 12:
Exercising Rights and Responsibilities

"

Being recognised as a suitable firm to be a signatory to the Stewardship Code in 2023 marked a significant milestone for Global Systematic Investors. This proud achievement reflects our unwavering commitment to safeguarding clients' investments through responsible investment practices and our commitment to transparent and ethical governance.

Kate Hudson
Managing Partner at Global Systematic Investors LLP

SECTION 1

# Purpose and Governance

## Principle 1: Purpose, Strategy and Culture

*Signatories' 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.*

1 2 3 4 5 6 7 8 9 10 11 12

GSI aims to design, build, and deliver portfolios that have better risk and return profiles than traditional, market-weighted indices while integrating sustainability risk into our investment decisions.

Our purpose is to be a trusted partner to our clients, providing them with investment solutions that align with their values and long term goals.

We have a systematic, disciplined approach which is robust, and built on academic research and empirical evidence. We remain at the forefront of financial economics research, continuously integrating the latest insights into our investment strategy. For some time, academic and empirical research has demonstrated that, within the broader equity market, risk and return can be differentiated into separate factors by creating portfolios using companies' characteristics such as size, value, and profitability.

The aim is to provide our investors with investment strategies that not only optimise returns but also exhibit improved ESG risk profiles. Our investment approach allows us to effectively integrate return factors with improved ESG characteristics, which are sometimes conflicting.

We provide investors with diversified, sustainably focused portfolios with high capacity, low turnover, and low transaction costs. We incorporate financial material ESG risk considerations into all our investment strategies and have been doing so since 2018. Both our strategies are SFDR Article 8.

> "At Global Systematic Investors, integrating sustainability into our investment process is fundamental. It ensures we're not just investing for today, but are also paving the way for a resilient future.
>
> Garrett Quigley
> Managing Partner at Global Systematic Investors LLP

## Investment Approach

At GSI, we believe that the purpose of equity market investments is to gain equity risk exposure. The expectation is that, over the long term, this risk is rewarded by positive returns. In the short term, equity returns can be negative, sometimes very negative. However, research shows that trying to time markets is futile and costly. Therefore, for equity investors, it is better to take a disciplined, long-term view and employ well diversified, low turnover investments.

We strive to deliver improved returns for our clients over the long term, through 'factor investing.' We believe that if an investor wants to target higher expected returns, then the most robust and effective way to do so is via the management of well known factor exposures while ensuring that a portfolio maintains diversification across countries, sectors, and stocks. In doing so, the funds have higher expected returns than market-weighted portfolios.

Our approach, therefore, is to design a set of factor-based exposures in a portfolio to target the higher expected returns associated with those factors. We then integrate the tilts to companies that have better ESG scores while maintaining those targeted factor exposures and ensuring that those exposures are not diluted after the integration of the ESG tilt.

When introducing ESG tilts in our portfolios, our academic background led us to explore the academic arguments and evidence available.

One of the most extensive academic studies at the time was a detailed review by Friede, Busch and Bassen (2015). Their research found that the majority of the 402 studies showed a positive relationship between ESG scores and corporate financial performance. Friede et al. state:

“The orientation toward long-term responsible investing should be important for all kinds of rational investors to fulfil their fiduciary duties and may better align investors' interests with the broader objectives of society. This requires a detailed and profound understanding of how to integrate ESG criteria into investment processes to harvest the full potential of value enhancing ESG factors.” [1]

Systematic risk factor strategy
(ESG overlay on risk factor structure)


A more recent study from 2021, titled ‘Sustainable investing: the good, the bad, and the costly’ by Blitz et al, reinforces the benefit of integrating ESG considerations for our investor base.

“Our study adds to the literature by showing that sustainable investing works particularly well in asset management for private investors. The findings suggest that retail investors are not only interested in the environmental, social, and governance (ESG) aspects of investments but that they also benefit from investing in stocks with high ESG ratings.” [2]

## Integrating Sustainability

GSI strongly understands that the impact of corporate activities on people and the planet extends beyond financial metrics and can have far-reaching implications for long-term sustainability and value creation.

GSI holds a fundamental belief in our moral and fiduciary obligation to conduct ESG screening. The 2015 Paris Agreement, endorsed by global leaders, commits to limiting the rise in global temperatures to below 2°C of pre-industrial levels. We see it as our responsibility to contribute by investing in companies that prioritize sound ESG practices. Not only do these companies align with our values, but they also offer enhanced appeal to investors, particularly when risk and return profiles.

Considering non-financial materialities is essential to fulfil our fiduciary duty to clients, manage risks effectively, and contribute to long-term value creation. We do this by integrating environmental, social, and governance (ESG) factors into our investment processes, exercising our voting rights, engaging with companies through collaborative initiatives, working with stakeholders, and promoting transparency.

[1] Reference: “ESG and financial performance: aggregated evidence from more than 2000 empirical studies” by Gunnar Friede, Timo Busch, and Alexander Bassen (2015)
[2] Sustainable investing: the good, the bad, and the costly” by David Blitz, Matthias Hanauer, and Milan Vidojevic (2021)

When we research and analyse a company's factor potential, its ESG 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 set an 'ESG score' for all companies based on underlying ESG risk data. The ESG scoring process calculates all the unmanaged risks regarding the most pertinent ESG issues for each company.

ESG integration is further described in **Principle 7**.

## Stewardship

We have a duty to our clients who entrust us with their investments to act responsibility and in their best interests by advocating for sustainable practices to contribute to a healthy enduring environment, equitable social structures, and well-governed companies.

Serving as an active owner helps to fulfill this responsibility, while producing value for clients over the long-term and drives positive change within companies and industries.

There are several ways this is facilitated, including stewardship through engagement, policy lobbying, voting and escalation.

As systematic investors there are certain ways to add value through stewardship and exercise our rights and responsibilities as owners of capital. We are less focused on direct corporate engagement. We value the power of our voice in collaborative forums and use our expertise to cast voting decisions in our clients and society's best interests. Although we are a small manager, every vote counts and our vote can be critical.

Our perspective on voting was corroborated by a quote from Peter Taylor from the IIGCC at the Engage Conference in February this year, "Stewardship can be more than voting but it can't be less."

As global equity investors, our clients' returns are linked to the broad economy. Our voting policy is aligned with the firm's philosophy of providing our clients with long term positive investment experiences by encouraging improved corporate behavior among the companies in which we invest.

In our voting and engagement policies, we consider a broad range of ESG factors that may not directly affect the risk or return of the corporation in the short term but can significantly influence its long-term performance and resilience. These non-financial materialities include issues such as climate change, human rights, labour practices, diversity and inclusion, supply chain management, and community engagement.

Stewardship activities are further described in **Principles 9 and 10.**

## Culture

At GSI, intellectual rigour, integrity and alignment are at the core of our culture. Our approach is guided by a commitment to align with the needs of our clients, as well as the broader interests of society and the planet. With integrity and transparency as our guiding principles, we strive to exceed expectations and build lasting relationships based on trust and credibility.

As philosophical outsourcers, we recognise the value of leveraging external expertise where economies of scale are advantageous. Through our network of partners, we tap into specialised knowledge and resources to enhance our operations and better serve our clients.

Our culture is built on mutual trust, fostering cooperation and unity as we work together toward shared goals.

## Team

The strength of our small team lies in the decades of diverse collective experience, and the varied backgrounds, perspectives, and professional experiences, which we have unified to create a scalable proposition that matches the needs of investors.

GSI's Managing Partners are all seasoned professionals, each with years of relevant practical experience and academic credentials. It is through this collective experience that GSI was founded. We all have a passion and belief in systematic investing. Additionally, we share a deep understanding of equity markets and the ethos of aligning articulated investment philosophies and processes with client needs.

GSI has a culturally diverse team. As we grow, the focus will be on fostering a meritocratic inclusive environment to attract the best people to the firm.

Our team recognise the importance of fostering industry knowledge. We engage PhD graduates and students to support specific GSI research projects. Bernd Hanke, our Co-CIO, volunteers as a curriculum level advisor for the CFA reading material (Level 3) and was involved in the development of initial reading material for the CFA Certificate in ESG in Investing.

## Client Centricity

We pride ourselves on our strong relationship with our clients. Part of what makes this work so well is they have access to the portfolio managers and key decision makers on an ongoing basis. Our approach is collaborative, internally, and externally.

We are dedicated to maintaining a collaborative and open relationship with clients. This includes meeting regularly. This is essential for fostering trust, understanding their needs, ensuring alignment and leads to better outcomes for both parties.

We have a focus on working with like minded evidence-based investors and the networks that support them.

- GSI works principally with independent financial advisors and other intermediaries that use our funds in portfolios for clients
- We work closely with financial advisers to help them understand what we do and how that can benefit their clients
- Advisers and their clients access our funds through model portfolios services (MPS), or directly via platforms, such as Transact or Fundment

Our product development process is deeply rooted in stakeholder input, ensuring that we craft solutions tailored to meet the desired investment outcomes of end investors. Through our partnerships with financial advisors and wealth managers, we have collaboratively designed strategies that align with our shared investment philosophy and ESG values.

We will continue to develop innovative solutions and products to meet client needs. There are very few deep value strategies that can incorporate sustainability factors effectively whilst maintaining the risk-return characteristics of factor investing sought after by certain investors.

## Outcome

GSI firmly holds that prudent asset management, achieved through well diversified portfolios, coupled with transparent stewardship aligned with our articulated philosophies, represents the optimal approach to effectively managing clients' assets.

At the heart of our philosophy is the belief that sustainable investing is the key to creating long term value for our clients and society. By aligning our investment strategies with our clients' values, we aim to contribute to a more sustainable future - safeguarding tomorrow.

We are committed to transparency, accountability, and ethical practices, and we hold ourselves to the highest standards of professionalism and integrity.

GSI also recognise that our responsibility extends beyond financial returns, and we strive to incorporate environmental, social, and governance considerations into our investment decisions. Overall, our approach to investing reflects our commitment to meeting our clients' needs and our responsibility to act in the best interest of all stakeholders, while promoting sustainability and positive impact.

PRINCIPLE 2

SECTION 1

# Purpose and Governance

## Principle 2: Governance, Resources and Incentives

*Signatories' governance, resources and incentives support stewardship.*

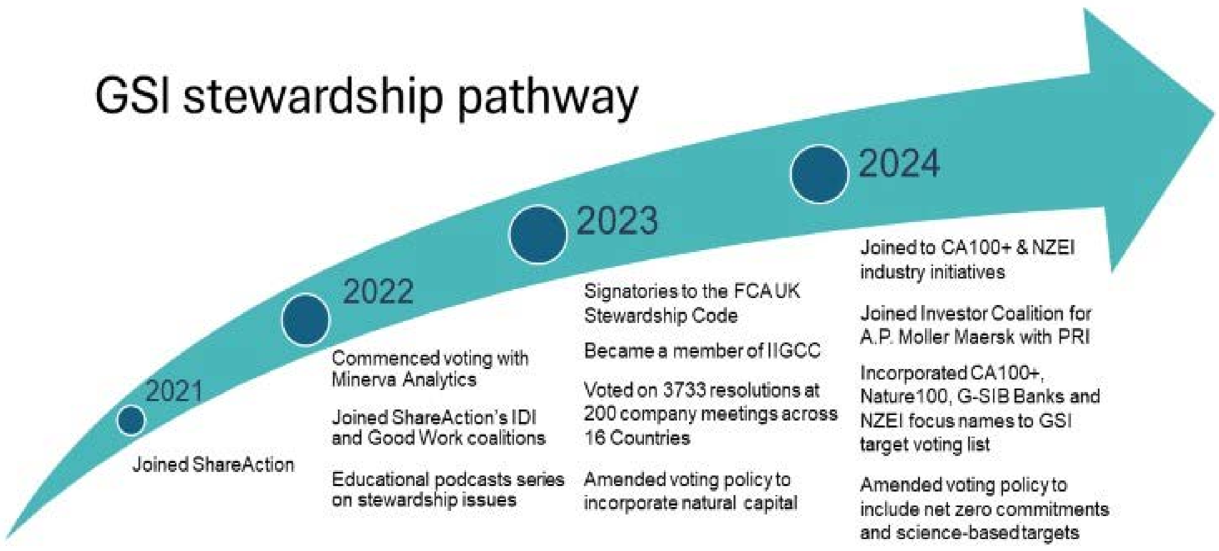
GSI strongly agrees with the FCA's view on governance, "Effective governance is essential for ensuring transparency, accountability, and integrity in asset management, ultimately fostering trust and confidence among investors." - Financial Conduct Authority (FCA)

Prior to 2021, our organisation was in a phase of growth and expansion and did not have an active stewardship strategy. Our initial priority was building a strong foundation for our business model and ensuring operational efficiency to deliver on the investment expectations of our growing client base.

We have always recognised the critical importance of stewardship in aligning values and driving long-term sustainability however we did not have the size to warrant the additional cost to our investors.

Since 2021, we have added to our Stewardship pathway in a logical manner. We are refining our strategy as we move along this path.

Our approach has been grounded in the rationale of structuring and applying governance, resources, and incentives in a manner that evolves alongside the growth of our firm. This adaptive framework ensures our investment strategy, upholds our fiduciary responsibilities and safeguards the best interests of our clients.




## Organisation and Governance Structure

GSI is a limited Liability Partnership and is a regulated FCA fund manager.

The GSI Global Sustainable Value Fund and the GSI Global Sustainable Focused Value Fund are sub-funds of the umbrella fund, GemCap Investment Funds (Ireland) plc ('GIF"). Both funds are classified as Article 8 under SFDR and incorporate the same sustainability model. This consistent approach to sustainable integration guarantees that all clients benefit from a clear and standardised approach to sustainability and stewardship.

The Management Company of the umbrella fund is Gemini Capital Management (Ireland) Limited (GemCap).

The roles and responsibilities of GemCap are:

- Monitor, independently of the Investment Managers, that each fund is managed in line with the fund documents and applicable regulations
- Support the GIF board, with day to day responsibilities and functions
- Supervise delegates to ensure they are performing their appointed roles
- Safeguard that there is a functional and hierarchical separation of risk management and portfolio management functions
- Regularly report to the GIF board and attend the fund's board meetings

This is fully explained in the GSI Due Diligence Framework.

GSI's Management Committee sets the firm strategy and oversight of the firms' systems and controls. Our Investment Committee, which reports to the Management Committee sets investment policies and is responsibility for ESG integration.

The Investment Committee evaluates the effectiveness and robustness of our stewardship policies, initiatives, engagements with companies and proxy voting, it also investigates conflicts of interest that may arise from our stewardship activities.

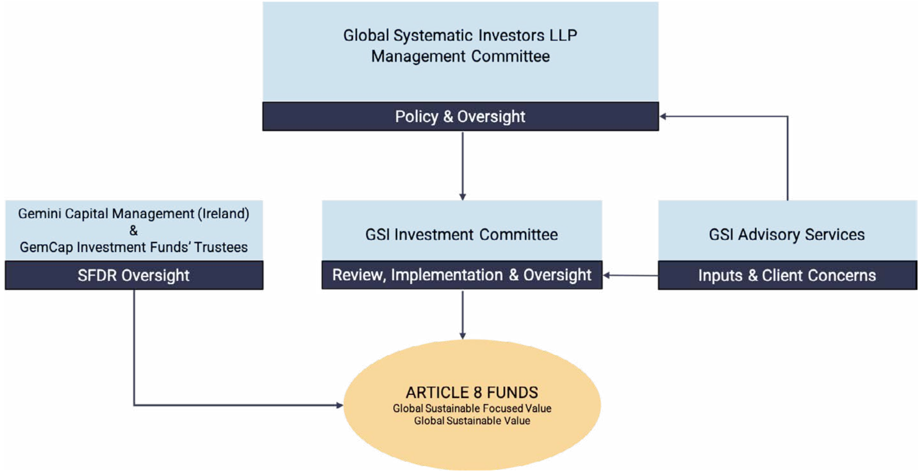
Our Management Committee provides guidance on corporate values while leveraging the other Committee's views on investment research, portfolio management, corporate responsibility, risk, and compliance.

Accountability ultimately lies with the Management Committee and the managing partners. The members of these committees are all managing partners of the firm and have every incentive to ensure that the business operates properly.

Our partner in charge of Client Relationships manages our Advisory Services and represents the expectations of clients and stakeholders including the relationships with any signatories and coalitions. We also have an external compliance specialist, Cosegic, to support the governance oversight.

## The GSI Team

GSI is a small but deeply experienced team. The partners have on average 30 years each of practical investment knowledge with global experience across the UK, Europe, the US, and Asia Pacific. Three partners collectively




hold advanced degrees from the London Business School including a PhD, Masters of Finance, and an MBA. Two team members are CFA® charter holders and another has a Bachelor of Economics and earned the CFA Institute Certificate in ESG Investing. Dr Bernd Hanke was on the advisory board for the development of the CFA Global Certificate in ESG.

GSI has experienced significant growth in AUM, more than doubling our assets under management in two years. Despite our operational philosophy centred around outsourcing, we recognise the need to expand our team to support this growth. In 2024, we hired an in-house Compliance Manager to enhance our regulatory oversight.

Moving forward, we plan to further bolster our team with strategic hires in the investment and research domains. Specifically, we aim to augment our investment team with additional expertise to enhance our research capabilities and to analyse sustainability data effectively. These targeted hires will enable us to continue delivering exceptional service to our clients while upholding our commitment to sustainable investment practices.

# The GSI Team

Garrett Quigley
Managing Partner;
Co-Chief Investment Officer

Garrett has over 25 years' experience managing quantitative investment strategies. He co-founded GSI to forge diversified factor-based investing with long-term sustainability of investments. Prior to this he was a senior portfolio manager with Dimensional. He holds a Masters in Finance from London Business School and an MSc in Intelligent Systems from Brunel University. He has co-authored articles including a study with Rex Sinquefield on UK fund returns and a long-term study on the value effect in the UK with Elroy Dimson and Stefan Nagel. He is an Advisory Board member of Style Analytics and was a director of INQUIRE UK.

Bernd Hanke
Managing Partner;
Co-Chief Investment Officer

Bernd has more than 20 years' experience managing quantitative investment strategies on a global basis. Prior to founding GSI, Bernd was an asset manager for GSA Capital in London and Head of International Quantitative Equity Research at Goldman Sachs Asset Management in New York. Bernd believes that a scientific, academically grounded, and sustainable approach to investment management produces optimal long-term results both for investors and for society as a whole. He is also a referee for the Financial Analysts Journal. Bernd holds a CFA designation and has a PhD in Finance from London Business School.

Andrew Cain
Managing Partner

Andrew has over 25 years of experience in fund management, both in Europe and Asia. His expertise covers global, regional, local equity and fixed income portfolios. Andrew holds a CFA designation and an MBA from the London Business School. Andrew is a firm believer that a systematic approach to investing, using well understood and tested academic theories, combined with sensible implementation, produces the best results for clients. GSI has enabled Andrew to get back to working in a small team of like-minded professionals, all of whom are passionate about investing and delivering the best outcome to their clients.

Kate Hudson
Managing Partner

Kate has over 30 years' experience in global asset management in distribution across all channels. Prior to GSI, she was Head of Institutional Business UK and Europe, Listed Infrastructure for Legg Mason Global Asset Management and Director of RARE Infrastructure (UK). Kate was also Director at Russell Investments in London and Vice President at Dimensional Fund Advisers based in Sydney and held senior positions for BT Funds Management and AMP Capital. Kate is a Trustee for the Shrewsbury Food Hub. She holds the CFA Institute Certificate in ESG Investing and a Bachelor of Economics from the Australian National University (ANU).

Max Tennant
Manging Partner

Max has over 30 years' experience in the financial advisory world in advice, strategy and platforms and is a regular conference speaker. He talks across UK, Europe and SE Asia on subjects such as socially responsible investing and practice management. Max has spent many years applying systematic investment strategies to client portfolios. His drive for adopting a sustainable approach to investing has come from his farming background as a child and one simple question he asks nearly everyone he meets; "What do you want for society and the world at large?" Max is a Chartered Financial Advisor, MCSI and Chairman of IFAMAX.

# Organisation Chart - including Roles and Responsibility

## Garrett Quigley

Managing Partner; Co-Chief Investment Officer

**Management Committee Member**

- Setting strategy
- Monitoring and reviewing business plan
- Reviewing financials
- Oversight of firm's systems and controls

**Investment Committee Member**

- Setting investment strategy
- Monitoring and review of investments

**Compliance Committee Member**

- Monitoring and review of firm's compliance programme

**Investments**

- Maintaining systems and controls for GSI's investments

**Sustainability**

- Setting sustainability integration strategy
- Systems and controls for GSI's sustainability programme

## Bernd Hanke

Managing Partner; Co-Chief Investment Officer

**Management Committee Member**

- Setting strategy
- Monitoring and reviewing business plan
- Reviewing financials
- Oversight of firm's systems and controls

**Investment Committee Member**

- Setting investment strategy
- Monitoring and review of investments

**Compliance Committee Member**

- Monitoring and review of firm's compliance programme

**Research**

- Maintaining systems and controls for GSI's research

**Sustainability**

- Research, data and reporting for GSI sustainability programme

## Andrew Cain

Managing Partner, Compliance Officer, & MLRO

**Management Committee Member**

- Setting strategy
- Monitoring and reviewing business plan
- Reviewing financials
- Oversight of firm's systems and controls

**Investment Committee Member**

- Setting investment strategy
- Monitoring and review of investments

**Compliance Committee Member**

- Monitoring and review of firm's compliance programme

**Compliance**

- Maintaining systems and controls for GSI's research

**MLRO**

- Maintaining systems and controls for anti-money laundering

**Operations**

- Maintaining systems and controls for GSI's business operations

**Sustainability**

- Monitor and review regulatory and compliance requirements for GSI sustainability programme

## Kate Hudson

Managing Partner, Head of Advisory Services

**Management Committee Member**

- Setting strategy
- Monitoring and reviewing business plan
- Reviewing financials
- Oversight of firm's systems and controls

**Investment Committee Member**

- Setting investment strategy
- Monitoring and review of investments

**Compliance Committee Member**

- Monitoring and review of firm's compliance programme

**Sales & Marketing**

- Maintaining systems and controls for GSI's sales and marketing efforts

**Sustainability**

- Monitor and review stewardship and collaborative engagement strategy for GSI sustainability programme

## ESG and Stewardship Functions

All members of the firm are actively involved in ESG investment and stewardship. The table below provides a comprehensive overview of the roles and responsibilities within GSI's ESG and stewardship functions. Led by dedicated professionals, each area plays a pivotal role in advancing the integrating ESG considerations into the investment processes and promoting responsible practices. While specific individuals lead certain functions, it's important to note that everyone at GSI is actively involved in these efforts, reflecting the firm's collective commitment to responsible investing and stewardship. From developing ESG strategies to engaging with stakeholders and ensuring regulatory compliance, these functions collaborate across the organisation to uphold GSI's values and drive meaningful impact.

## Diversity and Inclusion

Diversity is essential in any workplace, as it fosters a culture of inclusivity, creativity, and collaboration. GISI is a small firm, comprising five partners with a gender mix of 4:1 male to female. The partnership is culturally diverse, with partners from Irish, German, English and Australian backgrounds.

The team has been built on mutually aligned investment philosophies.  Three of the 5 partners have worked previously for the same asset manager however in different locations. Our aim is to ensure that our business policies, procedures, and behaviours promote diversity and inclusion and create an environment where individual differences are valued.

### Functional Roles and Organisational Chart - ESG Integration and Stewardship

| **Investment**<br>**Garrett Quigley** | **Lead** | **Compliance & Regulation**<br>**Andrew Cain** | **Lead** | **Stewardship and Engagement**<br>**Kate Hudson** | **Lead** |
|---|---|---|---|---|---|
| **ESG Strategy Development**<br>Design, development and Implementation of ESG strategies aligned with firm mission. | All | **ESG Policy Development**<br>Develop internal policies and guidelines regarding, ESG integration and data management, stewardship and voting practices, tailored to our investment approach and client objectives. | MC | **Stakeholder Engagement**<br>Cultivate relationships and engage with clients, investors, industry associations, and NGOs, to understand their sustainability expectations, gather feedback, and communicate GSI's ESG initiatives. | KH |
| **Investment Process Integration**<br>Incorporate ESG factors into investment analysis and decision-making processes to align with client preferences for sustainable and responsible investment strategies. | GQ | **Regulatory Compliance and Transparency Oversight**<br>Monitoring of regulatory developments and requirements related to sustainability reporting, disclosure requirements, and ESG standards, ensuring compliance with relevant regulations and industry guidelines. | AC | **Collaboration and Partnerships**<br>Collaborate with industry peers and other stakeholders to share best practices, participate in collaborative initiatives, advocate for shareholder rights. Contribute to working group and attend research meetings and sustainability-focused events. | KH |
| **Controversies and Exclusion monitoring**<br>Identify, monitor and address exclusion and controversies in portfolio companies, ensuring fair and equitable practices consistent with GSI Investment rules and protocol. | GQ | **Proxy Voting**<br>Supervise strategic execution of proxy voting decisions on behalf of investors during shareholder meetings, ensuring alignment with agreed interests and values. | AC | **Reporting and Transparency**<br>Provide transparent and comprehensive reporting to clients and industry bodies, including the FRC, on stewardship activities, including voting decisions, engagement outcomes. | KH |
| **Portfolio Evaluation**<br>Maintain attribution on impact of our ESG integration on portfolio performance and risk management. | GQ | **Proxy Advisory Services Utilisation**<br>Utilize proxy advisory services to enhance research capabilities, gather insights on corporate governance practices, and inform voting decisions in alignment with client interests. | KH | **Continuous Education and Training**<br>Invest in ongoing education and training initiatives for investment professionals to stay updated on evolving stewardship practices and regulatory developments. | All |
| **Reporting**<br>Preparation of regular reports on sustainability metrics and benchmark performance. | BH | | | | |

We ensure that all employees have equal access to professional development opportunities, and creating a workplace culture that values and respects diversity.

Global backgrounds


GSI is a work place committed to:

- free from discrimination, harassment, bullying, victimisation, and vilification
- treating employees fairly and with respect
- a workplace culture that is inclusive and embraces individual differences
- awareness in all fairness, equity, and respect for all aspects of diversity
- flexible work practices and policies
- cohesive hiring policies to attract and develop a diverse range of talented people

## Learning and Development

GSI are a team of intellectually curious academic practitioners. We dedicate time and resources to understand the increasing complexity of the interplay between ESG considerations and their impact on investment performance.  We leverage a wide network of industry relationships and sources of data and research. We maintain strong ties with respected academics from prestigious institutions like London Business School, Bayes Business School, Cambridge University, and Toulouse Business School.

> "The pace at which ESG considerations are evolving requires fund managers to stay ahead of the curve, integrating sustainable investment practices into their decision-making process."
>
> Financial Times, ESG Investment Trends in 2024 [3]

To continuously enhance our knowledge and expertise, we prioritize ongoing learning and knowledge-sharing initiatives through the following initiatives:

### Establish an Advisory Board

Over the next 12 months, we intend to establish an Advisory Board comprised of topic experts and professionals to complement our internal research. We will be able to leverage a broad range of expertise across the sustainable investment spectrum, including experts in ESG investment research, stewardship practices, regulation, and corporate responsibility.

Members will be able to  support the team in rapidly evolving knowledge areas, including SDR and the evaluation and practical integration of climate transition plan data.

The rapidly evolving landscape presents several challenges including data and regulatory complexities. The availability of consistent and high-quality ESG data varies across regions and sectors, making it difficult to perform accurate analysis on evolving areas like biodiversity and transition plans to confidently add these to a systematic investment process.

> "ESG considerations are rapidly evolving, with new metrics and standards being developed and existing ones being refined. Keeping pace with these changes can be challenging for investment professionals."
>
> CFA Institute's report titled "ESG Integration in the Investment Process"

[3] Reference: FT.com

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### Professional Development

Kate Hudson has been accepted to attend The Oxford Sustainable Finance Group (OxSFG) Stewardship and Engagement Leadership Programme in June this year. This experience will advance the skills, knowledge and networks needed for better stewardship and engagement. This course will explore current and emerging engagement strategies; discuss data and analysis to inform engagement; and consider the parties involved in enhancing effective engagement.

### Networking

Networking provides valuable opportunities for knowledge exchange and learning from peers and experts in the field. We regularly attend events, listen to webinars, and collaborate with our peers across many different industry associations and groups including INQUIRE UK, IIGCC, UKSIF, Transparency Taskforce, CFA, CISI, SRI, Professional Advisor, ShareAction, Morningstar, Chatham House, The Investment Network, and others. We participate to learn and share knowledge.

Collaborative engagement - Refer to **Principle 10.**

### Sharing knowledge

As a team, we actively stay informed about stewardship issues, monitor regulatory developments, and track industry trends. Including dialogue with industry experts.

Arun Kelshiker CFA, who serves as an Advisory Board Member of the Cambridge Sustainable Investment Partners, among many other academic and sustainability-focused roles, has provided invaluable insights on topics such as diversity, mapping UN SDGs, and other data resourcing options. His perspective offers a valuable alternative viewpoint, enriching our understanding and informing our approach.

## Systems and Processing

### Outsourcing

To achieve the best results while being a relatively small business, GSI outsources areas of operations and stewardship where we believe that the business and our clients will benefit.

Outsourcing to experts in their field of operation enables us to concentrate on our core competencies and strategic priorities, enabling us to operate more efficiently, competitively, and strategically in the dynamic asset management environment.

### Strategic Partnerships

- Fund services to GemCap which operates an umbrella fund of which our funds are sub-funds
- Trading to Vident Investment Advisory, a US-based advisory firm, that coordinates our global trading activity
- Implementation of our tailored voting policy to Minerva Analytics a leading European global proxy voting and stewardship platform,
- Compliance to Cosegic, a specialist compliance consultancy
- We outsource IT, Legal, Accountancy, and Marketing to experienced and well-regarded organisations
- Portfolio metrics to StyleAnalytics - Part of InvestmentMetrics (now Confluence)
- ESG Research and risk ratings to Sustainalytics, (now part of Morningstar) one of the leading providers of ESG research and data

### Services

In addition to the investment data, we work with the following service providers for additional resources for our stewardship activities:

Minerva allows investment professionals to make informed and sustainable stewardship and proxy voting decisions based on high quality ESG and other data which is based on in-depth research.

We support our stewardship activities by sourcing ESG risk ratings, research, controversies, and data from Sustainalytics. They also provide us with product involvement screening and carbon intensity data, as well as support for SFDR and EU Taxonomy reporting.

We also receive company specific alerts from Gemini who monitors our exclusion list on an ongoing basis.

Since joining IIGCC we have access to their data and analysis. We have used the target companies within the CA100+ and NZEI in our voting using data sourced from there.

ShareAction provide surveys, briefings, reports, and collaborative opportunities.

We frequently cross-check data with other sources providers to ensure its robustness.

## Data and Research

The Investment Committee has an extensive set of resources available to fulfil its function:

### Resources

- An extensive global dataset of financial information provided by FactSet covering market based and fundamental data across global equity markets
- An extensive global dataset on the sustainability of companies provided by Sustainalytics
- A global market weighted index dataset based on free float adjusted market capitalisations which has been screened for liquidity and investability provided by Solactive
- External portfolio analysis software provided by Style Analytics and Bloomberg provide analysis, attribution, and reports on our investments
- A rich set of software resources developed internally for portfolio construction, back testing, and analysis

Data monitoring – **Refer to Principle 8.**

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## Regulatory

### SFDR

GSI funds are Irish domiciled UCITS regulated by the Central Bank of Ireland. The EU has introduced sustainability reporting regulations that require disclosures of specific metrics. GSI is working closely with GemCap, who has the governance responsibility for ensuring the Funds satisfy their SFDR obligations.

GemCap are a well-resourced specialist in this space with over €4bn in AUM and 11 other managers in their stable.

Gemini has employed RiskSystems to monitor the funds and, for reporting purposes, GSI has subscribed to the Sustainalytics SFDR module. SFDR reporting is on the Funds' pages on GemCap's website www.geminicapital.ie

### SDR

Although our funds are European and not UK based, we are reviewing the requirements under the FCA's SDR regulations to classify our strategies under one of the four labels and to provide the necessary information to disclose our stewardship strategy which supports our funds sustainability objectives and desired outcomes. We are engaging with industry experts to resource this review process.

We are committed to transparency and responsible investing practices and are focused on ensuring our strategies align with regulatory expectations, and adhere to the Anti-Greenwashing regulations.

## Proxy Voting

Once our firm reached a size where implementing proxy voting and expanding stewardship activities became feasible, we sought a scalable solution aligned with our structure. After evaluating various service providers, we began our partnership with Minerva at the start of 2022.

MINERVA ANALYTICS

We chose Minerva because its template is based on a unique decision-support algorithm which generates bespoke policy guidance. The ensures that the template is based on our own specific criteria to ensure a completely tailored approach. The Minerva system also provides transparent policy rationales which are drawn from global investor good practice guidelines, regulations, and national corporate governance codes. Our voting policy is not constrained by default or standardised policy parameters.

Each year Minerva conducts a comprehensive review of global governance and voting guidelines to ensure that the Minerva Voting Template system accurately reflects current good practice.

We also use the services of Minerva to provide information, highlight controversial items in addition to providing the platform to execute our proxy votes.

2023 was our first full year of exercising our voting rights.

As we continue to enhance the services we provide, we are actively considering utilizing Minerva's integrated engagement letter writing service.

This service is tailored to assist investment companies by explaining our voting rationale, particularly for votes cast against management at company meetings.

For corporate engagement, GSI works with ShareAction and the IIGCC to identify key engagement issues and to cooperate with other asset managers and asset owners in engaging with investee companies.

Engagement is explained in **Principle 9.**

We believe that our current governance structure works very well for the size and capacity of our business today. We also consider our philosophy of outsourcing operations to specialist organisations to be extremely effective.

How we monitor service providers - **Refer to Principle 8.**

## Incentives

GSI is structured as a Limited Liability Partnership (LLP).

In 2023 the team at GSI were all equity partners in the firm. With personal investment in the firm's performance, the partners are deeply committed to GSI's long-term success and sustainability. The partnership structure fosters alignment, accountability, and commitment among the partners, as all partners share in the firm's successes and failures. This ensures that everyone is incentivised to effectively manage and run the firm in the best interest of the enduring success of the business. Rewards come from the continued growth in assets under management and client retention and satisfaction.

GSI's Management Committee is responsible for governance and oversight arrangements within the firm, including the firm's remuneration policy. The are no additional volume or sales targets for which sales are measured against for remuneration purposes.

## Outcome

GSI is committed to upholding stewardship principles and over the period our governance structure and resources have provided the ability to do so. There is a recognition of the need allocate resources strategically, strengthen governance structures, and address challenges posed by regulatory pressures and the dynamic nature of stewardship practices. Through continuous improvement and adaptation to evolving standards, GSI aims to continue to enhance its stewardship capabilities and deliver positive outcomes for its clients and stakeholders.

PRINCIPLE 3

SECTION 1

# Purpose and Governance

## Principle 3: Conflicts of Interest

*Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

## Conflicts of interest

GSI values integrity and operates to the highest possible standards of openness and accountability to ensure that we conduct our business with honesty and integrity across all our clients and business activities. We have processes in place to ensure legal and regulatory requirements are fully complied with as required.

**Ethical Commitment**

GSI recognise the importance of upholding ethical responsibilities in managing clients' assets. By implementing robust conflict policies, we ensure the integrity in our investment decisions. For example: We do not front run, churn or accept gifts and incentives.

**Regulatory Compliance**

GSI take risk seriously and have established processes designed to mitigate conflicts and comply in a complex regulatory landscape. For example: We prioritise timely and comprehensive disclosure and prevent market manipulation or insider trading.

**Client-centric Approach**

GSI have an unwavering commitment to the fiduciary duty to our clients drives the comprehensive approach to conflicts. For example: We ensure we treating all investors equally and we provide clear reporting on the portfolio risks and performance.

GSI has a clearly articulated policy on managing conflicts of interest which forms part of the firm's policies and procedures. Our Conflicts of Interest Policy is available on request to clients.

We are committed to identifying and effectively managing any conflicts of interest in the best interests of our clients. We firmly believe that transparency and disclosure are vital components of our conflict management strategy.

The Managing Partners of the firm are responsible for ensuring that the systems, controls, and procedures can identify, manage, limit, or prevent any potential and actual conflicts of interest that may arise.

GSI regularly reviews our business model to ensure any new potential conflicts are noted and managed or prevented effectively.

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

Examples of arrangements in place to facilitate conflict management include policy implementation and internal processes, conflict registers, detailed conflict assessments where required, training, and governance arrangements with appropriate oversight.

### Potential Conflicts of Interest

GSI has reviewed its business model and has identified the following potential conflicts of interest for now and in the future:

- Employee roles and responsibilities
- Management of employees
- Remuneration
- Business interests
- Connected persons
- Inducements including gifts and hospitality
- Personal account dealing
- Client orders versus firm business or other clients' orders
- Handling confidential and insider information flows

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## GSI conflicts of interest policy

| | |
|---|---|
| **Employee Roles & Responsibilities** | GSI maintains a clear segregation of roles and responsibilities within the Management Committee to maintain an effective control environment and to avoid conflicts of interest in roles wherever possible. The governance structure is documented in the individual Statements of Responsibility for each Managing Partner. |
| **Supervision and Management of Staff** | Staff currently work remotely. As the business grows, access to sensitive data may give rise to conflicts and the requirement to establish segregated controls will be considered. Employees will receive training on understanding their obligations in this area. |
| **Remuneration** | In order to prevent a conflict of interest, the remuneration of employees is not directly linked to sales and the remuneration structure considers a number of different factors including a good standard of compliance. |
| **Business Interests** | GSI requires its employees to disclose directorships and interests in other companies and to disregard the interest, relationships or arrangements concerned when acting on behalf of clients. |
| **Connected Persons** | There is a duty to avoid a conflict of interest arising where an employee has an indirect interest through a connected person. We require our employees to disclose any conflict and to disregard the interest when acting on behalf of clients. |
| **Inducements including Gifts and Hospitality** | We recognise that gifts and hospitality can lead to potential conflicts of interest. GSI has a strict policy, which specifically prohibits soliciting or accepting any inducements to conduct business in a specific manner that would give rise to favouring the interests of one client over another. Our policy ensures all gifts and inducements received from or given to third parties of any size are declared, and pre-approved as appropriate. All employees are expected to act with the highest standards of integrity to avoid any allegations of conflicts of interest. |
| **Personal Account Dealing Procedures** | In order to manage actual or potential conflicts that may arise from personal account dealing, GSI has Personal Account Dealing Procedures in place. |
| **Customer Orders** | Our Order Execution Policy requires employees to take all reasonable steps to achieve the best overall trading result for clients; to exercise consistent standards; and operate the same processes across all markets, clients, and financial instruments in which it operates. GSI has a strict "no front running" policy. |
| **Handling confidential & inside information flows** | All staff must comply with our Market Conduct Policy, as well as the relevant FCA Rules, which aim to prevent insider trading, the misuse of information and market manipulation. |

Source: GSI Conflicts of Interest Policy and Register_ V3.2 March 2024

## Preventing Conflicts

GSI will prevent a conflict of interest if an applicable law or regulation prohibits it. GSI conflicts of interest register sets out which conflicts must be prevented and the controls in place for doing so.

## Conflict Disclosure

In the event that there is an unavoidable conflict or measures to manage conflict are assessed to have been ineffective, we will disclose the conflict to affected clients. We will also disclose any conflicts when required by laws or regulations. This information will be presented clearly and thoroughly to help our clients make informed decisions.

## Oversight

GSI employs Cosegic to assist in its compliance activities, including participation in Compliance Committee meetings, regulatory filing, review and maintenance of compliance procedures, and an annual review of the firm's implementation of the compliance governance process. Cosegic's review and monitoring responsibilities include GSI's conflicts of interest. Cosegic was formed with the merger of Compliancy and Portman Compliance in 2022.

This year, we have expanded our team and created a dedicated in house Compliance Manager role to work with our current Compliance Officer and Compliance Committee.

This person will liaise with Cosegic on all matters concerning conflicts.

The firm records all conflicts of interest that arise or may arise, on the Conflicts of Interest Register which is updated regularly and discussed at the monthly compliance meeting.

The register is provided to the Compliance Committee for review at least annually. We regularly review our business model to ensure any new potential conflicts of interest are noted and managed or prevented effectively.

We also have regular compliance training for staff to ensure awareness and understanding are up to date and complete online training modules in key areas of compliance, for example: Anti-money laundering and bribery & corruption.

## Other potential conflicts

During GSI has a diverse group of investors, including discretionary fund managers. An issue we recognise and manage closely is the potential of a client or group of clients who have a large holding in a GSI fund and seek to influence an investment decision.

We strongly follow the principle that funds must be managed in the best interests of all fund shareholders, not just the large shareholders. GSI has identified this potential conflict, and it is monitored by the Compliance Committee to ensure all our funds continue to be managed in the best interests of all clients.

Another example of a potential conflict may occur when the investment team is buying or selling a holding that is in more than one GSI fund. When we decide to buy or sell a stock across multiple funds, there is a policy in place that requires the trades to be allocated proportionately across all funds, by value.

Thirdly, the approach we take in our sustainability program. There are many ways to interpret and invest according to responsible sustainable policies. 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 assess whether our approach to sustainable investing is in line with their views.

## Proxy voting and engagement

Since increasing our stewardship function, introducing voting and engagement initiatives we been conscious to identify any conflicts of interest that may materialise in these processes.

The policies and procedures for identifying and managing conflicts of interest that may arise in the execution of our voting activities are outlined in the GSI Global ESG Proxy Voting Guidelines.

GSI maintains an explicit policy on managing any potential conflicts that are focused on the principle of preserving shareholder value. GSI works with Minerva to identify and manage potential conflicts to ensure GSI casts votes to serve our client's best interests.  Most proxy votes will be cast in accordance with pre-defined procedures and guidelines that minimise the potential for any conflict of interest.

Conflicts may arise where GSI has a commercial relationship with an investee company, or when engaging with or voting on companies where our staff have material holdings or personal relationships and connections.

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Conflicts may also occur if GSI engages with or votes on companies that are direct competitors, or if GSI retains the services of a third-party service provider that is also a portfolio company soliciting a proxy. At present, none of these has been an issue for GSI.

GSI currently does not split votes or accommodate expressions of wish in line with client requests. If we were to introduce this option, the proxy would continue to be voted in accordance with GSI's Proxy Voting Guidelines.

If the Compliance Committee identifies a significant conflict of interest, it has several options to address it, in line with its obligation to act in the best interests of clients and within legal requirements.

These options include:

- Recommending an independent fiduciary to act impartially
- Abstaining from voting

During the reporting period, there were no occasions when voting decisions were escalated due to an actual or potential conflict of interest being identified.

Proxy voting is further decribed in **Principle 12**.

## Proxy Advisor

Minerva offers assistance with bespoke voting guidelines, proxy voting research, and proxy voting implementation for GSI. GSI requires Minerva to inform us if there is a substantive change in their policies and procedures, including with respect to conflicts of interest.

Since merging with Solactive last year, there has been no cause for concern regarding conflicts and Minerva continues to provide GSI with reliable and detailed stewardship solutions. This includes rigorous reporting and engagement data on sustainability issues, as well as facilitation for proxy voting.

How we monitor our service providers is further described in **Principle 8**.

## Outcome

Although our size and geographical scope result in potentially fewer conflicts of interest compared to larger asset managers, we do not relax our commitment to robust conflict management protocols. This ensures the sustainable, long-term prosperity of our clients' investments and enhances the integrity of the broader financial system.

PRINCIPLE 4

SECTION 1

# Purpose and Governance

## Principle 4: Promoting Well-Functioning Markets

*Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*

## GSI's approach to risk

As described in **Principle 1**, GSI's investment philosophy is based on the belief that public markets are highly effective at processing information about risks and opportunities. With this in mind, we design our investment strategies and processes to take advantage of the real-time information in market prices.

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 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. By carefully managing the key factors and characteristics that drive expected return and risk, we are able to integrate sustainability while preserving the improved risk and return characteristics of the factor based investment strategy.

We have created a sustainable investment approach that is suitable for a core investment allocation and for those who wish to take deeper factor exposure in a diversified manner.

## Investment risks

Navigating risk through a robust, systematic, diversified approach is foundational to GSI's investment approach. When risks are undiversifiable, such as market-wide or systemic risks, we believe that market participants are compensated exposure to these risks. Consistent with our view that investors should be compensated for the risks they take, we believe evaluating companies' performance using ESG risk ratings enhances our management of risks and opportunities.

Our investment process deals with market wide and systemic risks by holding a well-diversified portfolio that is well balanced across sectors, countries as well as style groups. Our funds hold hundreds of securities. We believe this approach mitigates idiosyncratic risks associated with individual securities. We have over 2000 securities in our investment universe.

Our approach also reduces investors' exposure to extreme market movements, normally associated with market-weighted investing, which tend to concentrate on large-cap companies.

We do not try to time the market or individual market segments such as sectors. In the long run, the type of investment approach that we employ has been shown to generate performance above market returns, although temporary drawdowns may occur.

> "Investors should not try to time the market based on macroeconomic factors such as interest rate changes. The efficient market hypothesis suggests that securities prices fully reflect all available information, including macroeconomic factors, making it difficult to consistently earn abnormal returns by timing the market."[1]

We understand the significance of monitoring systemic risks and identify and assess those risks where feasible. For example, our Investment Committee regularly evaluates risks associated with liquidity, counterparty exposure, as well as other market-related risks.

Our strategies typically remain fully invested, even during periods of market turbulence. However, we also factor in the liquidity of our portfolio. We believe it is extremely important to maintain the liquidity of our funds. Currently, all our strategies could be liquidated to cash in under 1 day with no market impact.

1. Source: Malkiel, Burton G. "A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing." W. W. Norton & Company, 2019

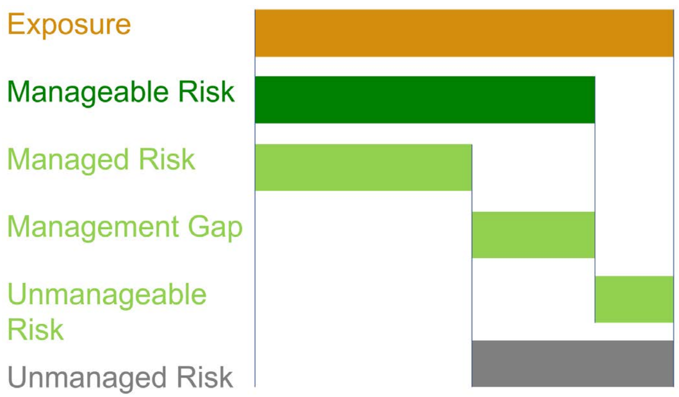
Events such as market turmoil from a war or market shock cannot be forecasted on a systematic basis, so the best way to deal with them is to avoid overreacting and to keep the long-term investment objective in mind.

## Sustainability and finance risk

Various aspects of ESG have an impact on sustainable value creation, as well as risk management.

In 2020, we took a significant step and changed our process to evaluate companies based on ESG risk criteria rather than the pillar approach. ESG risk ratings measure to what extent the enterprise value of a company is at risk due to a company's exposure to ESG issues that are material to its business. Rather than volatility, the risk rating can be viewed as a downside risk measure. The risk metric is determined by adding up the unmanaged risk factors of a company with regard to the most pertinent ESG issues for the company.

ESG risk ratings suggest a stronger link between ESG risk and financial risk for a company than the previous ESG scores.




Source: Sustainalytics 2022

We switched to using Sustainalytics risk data, which gives us the ability to assess publicly traded companies in the context of financially relevant ESG-related criteria that could impact their operating performance. For example, a company might be at higher risk of regulatory/legal action or negative publicity if material ESG issues such as carbon exposure, labour rights, etc. are not effectively managed.

This highlights the fact that even if an investor doesn't care about ESG per se, they should still be aware of the financial risk that may result from material ESG risk exposures and how companies manage those exposures.

The inclusion of the ESG risk ratings in our investment process helps streamline our process and allows us to incorporate the very latest ESG research into our sustainability component.

## Climate risk

Climate change has emerged as a defining global challenge with far-reaching implications for various sectors, industries, and economies worldwide. Climate risk has thereby become a critical consideration for equity investors, reflecting the growing recognition of environmental challenges and their potential impact on financial markets.

As a long-term investor, we understand that climate risk presents critical challenges presently and in the future.

Climate risk encompasses a range of factors, including physical risks associated with extreme weather events, transition risks arising from shifts towards a low-carbon economy, and liability risks stemming from legal and regulatory actions related to climate change. For equity investors, climate risk poses multifaceted challenges, from potential valuation impacts on assets exposed to climate-related hazards to regulatory uncertainties affecting entire industries.

Reducing exposure to companies that are poorly positioned to adapt to a low carbon economy can mitigate downside risks associated with potential regulatory penalties, stranded assets, and reputational damage.

We significantly reduce our overall exposure to fossil fuels and greenhouse gas emissions, while having a higher investment in companies within the same sector that have 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 target a level of fossil fuel exposure of half that of our benchmark (the Solactive GBS Developed Markets Large & Mid Cap Index) or lower. Companies are considered to be exposed to fossil fuels if they are involved in oil & gas production and power generation, 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.

Our voting guidelines were updated to encourage companies to develop a climate transition plan that discloses the strategy and actions the company intends it take to transition to net-zero greenhouse gas emissions by 2050. Where a company puts forward a resolution seeking shareholder approval, we will consider voting against the plan if it is deemed to be insufficiently aligned with our disclosure expectations and the goals of the Paris Agreement to keep global warming to 1.5°C.

Investing in climate-friendly assets that aligns with broader societal goals of environmental sustainability not only benefits the planet but may also lead to more stable long-term investment returns as companies adopt sustainable business practices.

## Social risk

Social factors have historically received less attention than environmental and governance factors within the investment industry. (PLSA Report March 2023)

Addressing social risks is crucial for sustainable long-term value creation and just transitions.

> “
>
> Ensuring the efficient, transparent, and fair functioning of markets is paramount  for sustainable growth and prosperity. The UK Stewardship Code, by championing responsible investment practices, acts as a cornerstone in nurturing a robust market ecosystem.
>
> Bernd Hanke, PhD
> Managing Partner at Global Systematic Investors LLP

Social and human rights related material risks can have adverse impacts on shareholder value.

GSI manages the risk of growing social and economic inequality through our voting guidelines which are set to vote with companies who implement policies and practices that promote social responsibility, equality, and inclusivity.

We advocate for companies to develop a climate transition plan that also considers the social impact of transitioning to a lower-carbon business model on workers and communities and commit to decarbonising in line with The International Labour Organization (ILO) "Guidelines for a Just Transition". We support this framework to manage the transition to a sustainable and low-carbon economy in a way that ensures social justice and decent work for all.

The ILO's guidelines for a just transition can influence the risk landscape for equity investors by shaping regulatory, transition, opportunity, social, and governance risks associated with the transition to a sustainable economy.

We are supportive of remuneration policies that are well-structured, fair, understandable, and with safeguards to avoid excessive or inappropriate payments. We expect companies to disclose an individual limit for incentive plans and consider salary increases should be aligned with what is offered to the wider workforce. We will not support increases in salary for the lead executive by more than 20% without a clear and compelling explanation.

In 2023 GSI voted on 721 remuneration resolutions. Of these, there were 87 resolutions regarding remuneration policies, including incentive plans. We voted against 59 (or 68%) of these proposals.

Minerva Briefing Proxy Voting Review reported on the increase in the use of one-off incentive awards in recent years with firms citing retention and recruitment as rationales. Some of the standout examples of the 2023 voting season. GSI voted against both these proposals.

- **Broadcom Inc** (67.83% dissent): in connection with the annual equity incentive award grant, CEO Hock Tan was granted an award with the opportunity to earn up to 1,000,000 shares contingent on stock price performance milestones and continued service over a five-year period. The value of the award is estimated at approximately $161m.

- **American International Group** (67.71% dissent): CEO Peter Zaffino was granted a special award of restricted stock units with a value of $50.0m as part of an entry into a new five-year employment agreement.

We believe increasing diversity and the spectrum of perspectives on a board can enhance board effectiveness and decision-making. Consequently, we expect companies to adopt and disclose a policy on board diversity.

We also recommend that companies set measurable objectives for improving gender diversity on their boards.

We have different expectations depending on market and company size, but we generally expect at least 20% of the board to comprise women.

We adapted our voting policy to comply with the FCA diversity targets concerning at least 40% of the boards of UK listed companies to be comprised of women directors, at least one of the senior board positions (Chair, CEO, CFO or Senior Independent Director) and to have at least one director from an underrepresented racial or ethnic community.

Source: Minerva Briefing: Proxy Voting Review 2023, Minerva Analytics.

## Geopolitical risk

GSI currently only invest in developed markets where equity markets can act freely and reduces risk by holding well diversified portfolios.

Geopolitical risks have the potential to influence market dynamics, economic conditions, sectoral performance, and long-term investment outcomes.

During 2023 the geopolitical landscape and global tensions remained high and continued to pose ongoing uncertainty for investors.

In 2023, the geopolitical landscape remained fraught with escalating global tensions, perpetuating a climate of uncertainty for investors. The forthcoming year offers no respite, at least 64 countries, including the US plus the European Union, are scheduled to hold elections in 2024 - representing approximately 49% of the world's population.

There have been a string of warnings that global tensions are abnormally high. Hamas' October 7 attacks and Israel's retaliation brought geopolitical risks back into focus for many, with the war in Ukraine deep into its second year and investors cautiously watching China's ambitions. Markets are also on high alert ahead of all the key elections next year.

> "A new set of global conditions is taking shape across each of these domains and these transitions will be characterized by uncertainty and volatility. As societies seek to adapt to these changing forces, their capacity to prepare for and respond to global risks will be affected."
>
> World Economic Forum Global Risk Report

These ongoing uncertainties weigh on investors' decision making processes. The potential for investors to overreact in times of uncertainty is always high, posing a threat of financial loss.

Events such as market turmoil from a war or market shock cannot be forecasted on a systematic basis, so the best way to deal with them is to avoid overreacting and to keep the long-term investment objective in mind.

Our approach to mitigating this risk involves proactive investor education initiatives aimed at fostering a better understanding of market dynamics and behaviour.

We produced a paper comparing the differences between 2008 and the market facing investors in 2023. We posed the question; Are the threats to the global economy and the financial markets so exceptional in 2023 that you should reduce your exposure to equities? There are certainly quite a few such threats around — war in Ukraine, tensions with Russia and China, and the effects of climate change.

At these times there is a temptation to react to the noise, de-risk from equities and reduce exposure to sensitive sectors. However, the evidence shows that markets tend to reward patient investors who stay calm and rational.

## Participation in industry initiatives

An important aspect of promoting well-functioning financial systems is engaging with other market participants.

GSI participates in several industry initiatives, and trade associations, including events run by the INQUIRE UK, IIGCC, UKSIF, CFA, CISI, SRI, The Investment Network, ShareAction, and others, where we have input into relevant topics and how ESG practices are progressing in the sector.

We participate to learn, share experiences, and encourage a better understanding of stewardship and sustainable investing issues.

Garrett Quigley, Co-CIO, was previously a director of the Institute for Quantitative Investment Research UK (INQUIRE UK),

Source: World Economic Forum Global Risk Report - 10 January 2024.

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the premier organisation for connecting academic research in financial economics and other quantitative investment topics with industry practitioners. INQUIRE UK organises regular research seminars and events where leading researchers present to practitioners and peers. We are still members and regularly attend their seminars and other events.

Bernd Hanke PhD, Co-CIO has been involved for over 4 years in initiatives to protect the rights of investors and reduce the fiduciary risk and failures of governance in the stewardship of US pension funds. He is used as an expert witness in US class action lawsuits involving major pension plan sponsors.

We continue to be active in ShareAction coalitions. ShareAction is a Not For Profit Charity committed to promoting responsible investment to achieve its mission of a financial system that works for the planet and its people.

As part of the progression of our stewardship and engagement strategy, in August 2023 GSI became a member of the Institutional Investors Group for Climate Change (IIGCC). The IIGCC is a prominent global network that brings together institutional investors and financial institutions dedicated to accelerating the transition to a low-carbon and climate resilient economy.

Within the IIGCC we became participants in the Index Investing Round Table and Proxy Advisor Working Group. It became clear in the Proxy Voting Group that our UK based proxy voting advisor, Minerva, was less restricted in suggesting changes to our voting guidelines in support climate and nature policies that the larger US based proxy advisors, where there is increased legal and political scrutiny of ESG practices.

We have joined CA100+ (memberships were paused during 2023) and Net Zero Engagement Initiative (NZEI). Through these networks, GSI gains a platform to collaborate with industry peers, share best practices, and contribute to impactful initiatives aimed at integrating climate considerations into investment decisions.

Industry collaboration refers to **Principle 10**.

## Thought leadership

Information is crucial for well-functioning markets.

Our focus on supporting well-functioning markets is continual. We research the risks facing the investors in our funds and keep our clients informed with timely research papers and thought leadership.

Transparent and accessible information from reputable sources, builds trust and confidence among investors. Thought pieces provide guidance and reassurance, fostering investor confidence, promoting investor participation and liquidity in the market.

Thought pieces, such as analysis and commentary enable Investors to make better informed decisions about asset allocation, portfolio diversification, and hedging strategies based on their understanding of market dynamics and potential risks.

We share attributions, performance analysis and market commentary with clients quarterly, in addition to factsheets. Half yearly a detailed investment report is shared with market highlights and a summary of sustainable risks and key sustainability indicators.

GSI acknowledges the value of expertise from both industry professionals and academia in generating high-quality research for the benefit of our clients.

We also regularly produce topical thought leadership papers on thematic risks, investment theory, and sustainability issues and publish these in Insights.

**Examples of thought pieces:**

The confidence crisis in the UK economy and the subsequent fluctuating pound produced ‘noisy’ currency movements for global investors. As a global equity asset manager, we examined what it meant for our UK Investors to have foreign currency exposure in 2023.

Global-investing-and-the-effects-of-foreign-currency-exposure

Investors were then confronted with the US Regional banks and Credit Suisse crisis. Following these events, we presented the risks facing our investors by exposure to this sector and revisited the case for sticking with equities and remaining calm in periods of market stress.

The-Case-for-Sticking-with-Equities-April-2023

Communication strategy refer to **Principle 6**.

## Outcome

In theory, a well-functioning financial system should maximise value for consumers and investors. We are confident that GSI's approach to risk management and its dedication to promoting well-functioning and efficient markets have yielded significant benefits for our investors.

Given our relatively small size, singular business focus, and investment approach, our business and investments exhibit low-risk potential concerning market-wide and systemic risks.

However, it is essential to still remain vigilant and adapt to changes in the market, industry, and the broader economic landscape to ensure continued risk management and resilience in the face of potential challenges.

We remain committed to deepening our engagement and interaction with market participants.

We have upheld our commitment to increasing our involvement with more industry advocacy groups and plan to capitalise on this growing engagement in 2024.

PRINCIPLE 5

SECTION 1

# Purpose and Governance

## Principle 5: Review and Assurance

*Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

## Assurances - Check and balances

We are committed to maintaining the highest standards of integrity and accountability in the implementation of our sustainable investment strategies.

Our policies and implementation around sustainability and stewardship have developed and improved greatly over the past few years, as GSI has grown in both clients and assets. We have embraced feedback from our clients and the industry network. This has been instrumental in refining and improving our approach to stewardship.

We have set policies and procedures to ensure effective governance of our activities. We recognise assessment and reflection of our policies, processes and frameworks are critical in ensuring the effectiveness of our approach in response to the rapidly evolving landscape. Although reviews are scheduled at least annually we adopt a pragmatic approach when time-critical drivers, such as material incidents or regulatory amendments, require ad-hoc attention.

There are several assurance checks and balances in place to ensure ongoing effectiveness of our stewardship practices.

These are covered by six areas:

1. Independent oversight
2. Review of policy improvement and changes
3. Regular reviews of policies and practices
4. Proxy Voting Guidelines
5. External validation
6. Client reporting – 'Fair Balanced and Understandable'

## Independent oversight

The funds for which GSI is the investment manager are sub-funds of a Dublin-based umbrella fund.  The management company of the umbrella fund. GemCap has independent oversight of the funds' investment activities, including the funds' approach to sustainable investments. GemCap's investment compliance team regularly review the funds' investments and challenge GSI if there are any perceived issues with the investments.

This oversight gives us regular opportunities to receive assurances if they support our processes.

GemCap and GSI report on the funds' investments to the Board of Trustees of the umbrella fund company, at least twice a year in a detailed Investment Managers Report in addition to other regular meetings.

In this report sustainable finance is assessed, including sustainability risk faced by the fund (being the risk that the value of the fund could be materially negatively impacted by an ESG event). This was assessed as low.

> "
>
> GemCap is highly selective in the managers it takes on as 'partners,' and our collaboration with Global Systematic Investors LLP has been a testament to excellence. Their unwavering commitment to integrity in their investment and sustainable principles coupled with expertise in systematic and factor investing has proven to be a winning combination. GSI doesn't just manage assets; they navigate the financial landscape with unparalleled expertise, delivering a robust investor experience.
>
> Stuart Alexander, Director GemCap

## Review of policy improvement and changes

Changes to GSI's stewardship activities introduced or improved in consideration of sustainability best practice include:

- Introduction of Nature Based and Just Transition guidelines in our Proxy Voting policy to match our stewardship priorities
- Updated criteria for 200 target companies with the inclusion of companies highlighted in focus lists on CA100+, NZEI, G-SIB's and Nature100. This ensures we keep accountable, through voting, those companies in our portfolio considered systematically important in addressing climate-related risks
- Successful applicant as a signatory to the UK Stewardship Code 2022
- Continual collaboration with other investors, companies, and advocates on the Climate and Good Work Partnerships with ShareAction
- Membership of the IIGCC and participation in 3 working groups – Including the proxy voting working group
- Continual educational outreach into the market through papers and research articles
- Improved reporting and disclosures

In 2023 we reassessed our assessed the risks of our engagement policy and took a step back to ensure we were fully aligned with the proposal and could authentically agree with every point raised in the shareholder resolution or activism. This was after the controversy following the Sainsbury's resolution we participated in.  We will continue to monitor how we work in collaborative groups and refine our stewardship priorities throughout 2024. This is explained further in **Principle 10**.

## Proxy voting guidelines

We have developed and implemented policies and procedures to ensure that the fiduciary obligation to vote proxies in the best interest of our clients is fulfilled. We follow a set of 'Guidelines' that provide a general framework for our proxy voting analysis. These guidelines are produced in consultation with Minerva who blends GSI's own stewardship policy beliefs with global good practice principles and sophisticated technology and expert analysis to ensure we execute independent and objective voting.

Our guidelines are consistent with global best practice guidelines such as the G20/OECD, are fully aligned with both the IIGCC Toolkit and the wider net zero objective and is aligned with the Transitional Pathway Initiative and Task Force on Climate-related Financial Disclosures (TCFD) Principles.

**Addition to policy - Just Transition**

Minerva extended its climate stewardship voting default framework and introduced a new voting policy question, that examines whether a company has committed to decarbonise in line with defined just transition principles, such as the International Labor Organisations' Guidelines for a Just Transition. We have chosen to also include this in our policy.

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## Regular reviews of policies and practices

### Review of proxy voting policy

We have the flexibility to update our proxy policy guidelines at any time, though we conduct a formal review on an annual basis at this annual review we conduct a thorough policy review to assess potential additions, revisions, and updates to our proxy voting and engagement policies, procedures, and guidelines.

Our proxy voting policy is reviewed with consideration from input from the Minerva and considerations of their annual review of Global Governance Voting Policy and Guidelines.  All changes are considered by the Compliance Officer, Andrew Cain and Lead for Stewardship, Kate Hudson, and then discussed with the Investment Committee before any changes are agreed. The decisions to adapt our bespoke policy is garnered with insights from sustainability data research, industry experts, our proxy advisor Minerva, client feedback and industry engagement. This year was our first year as members of the IIGCC. Minerva already incorporates guidance published by the Institutional Investor Group on Climate Change and Climate Action 100+.

We also examine the Share Actions Voting Matters report and as a member of the IIGCC Proxy Voting working group participate to gain insights into emerging issues and trends among other proxy firms and asset managers.

Minerva also provides detailed regular reporting on active controversies and resolutions, and we can adapt this target list when necessary.

For our Voting activity refer to **Principle 12**.

### Changes to proxy voting policy 2023

During the initial year of voting, we exercised prudence by refraining from making excessive changes to our policy, opting instead to maintain consistency for one full year. However, following guidance from Minerva, we have revised certain sections of our shareholder proposal guidelines to align with international best practices.

These include simplification to the application of global remuneration principles and updated capital authority thresholds in the UK in-line with the new Pre-Emption Group Guidelines.

The relevant diversity disclosures required as part of the FCA policy statement covering diversity on boards and executive committees, on were also added to the GSI voting guidelines in 2023.

**Other Notable changes to our policy in 2023 include:**

**Director Election Voting Standards**
New policy questions that clarify the voting approach taken on resolutions seeking to introduce and/or remove the cumulative voting standard on director elections replaced existing questions on this issue. The new questions refine and enhance the voting guidance generated on such resolutions.

**Say on Climate**
New questions on absolute short-term Scope 1 and 2 emission reduction targets and absolute medium-term Scope 1 and 2 emission reduction targets were introduced. These questions separate the consideration of short and medium-term targets. These questions are applied to board resolutions to approve the company climate transition action plan.

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**Shareholder Proposals**
The voting template was updated and enhanced in order to clarify and codify the voting recommendations generated for shareholder proposals filed on climate lobbying, how a company's political activity aligns with its expressed corporate values, racial equity audits, climate accounting, financing of fossil fuels, reporting on systemic social and/or environmental issues, and requests for a company to change its corporate form.

## Changes to guidelines for 2024

As explained, we exercised prudence in our policy adjustments during 2023, considering that we had not engaged in full-scale voting activities for the entire preceding year. This cautious approach ensured that our decisions were well-informed. For the forthcoming Proxy season our policy saw 2024 there were at least 40 template question amendments.

These included:

| **Section** | **Change** |
|---|---|
| 2.1 Composition | Diversity expectations enhanced |
| 5.2 Remuneration Policy | Expectations on ESG metrics strengthened |
| 6.1 Voting Rights | Expectations on time-based sunset provisions for dual-class structures added |
| 8.2 Climate Change | Expectations on climate disclosures added |

VOTING TEMPLATE CHANGES 2024

| RESOLUTION CATEGORY | NEW | REVISED | SHAREHOLDER |
|---|---|---|---|
| Audit & reporting | - | 5 | - |
| Board | 8 | 2 | 2 |
| Capital | 3 | - | - |
| Charitable Activity | - | - | - |
| Corporate Actions | 1 | 2 | 1 |
| Political Activity | - | - | - |
| Remuneration | 4 | - | - |
| Shareholder Rights | 1 | - | 1 |
| Sustainability | 2 | 4 | 5 |
| **Total** | **19** | **13** | **9** |

MINERVA ANALYTICS

## Target voting list

Currently, given the additional costs associated with voting proxies, we believe that it is not in the best economic interests of our clients to vote all proxies. Instead, we select subsets of the funds' holdings that we believe warrant voting.

## Review of target voting list

Our target list is reviewed annually.

During the 2023 review we analysed the methodology and adapted the criteria variables slightly for the target companies. Changes were necessary as the portfolios have grown in aver minimum holdings over the year due to increase is AUM.  At the most recent review in January this year, we have expanded this decision tree to encompass any holdings that are also included within the target companies identified within CA100+, NZEI, Nature 100, and G-SIBs (Global Systemically Important Banks).

These changes are as follows:

1. **2023:** Minimum aggregate holding increased from $150,000 to $300,000;
2. **2023:** ESG Risk Rating > X increased from 28 to 30, which maps to the reported "High Risk" level.
3. **2024:** updated criteria to include crossover of portfolio holdings with systematically important ESG risk companies highlighted in the focus lists of CA100+, NZEI, G-SIB's and Nature100.

## Target voting list criteria

| FILTERS | RULE |
|---|---|
| Total Holdings | Total aggregated company holdings and total value held |
| Minimum Holdings | Aggregate holdings of at least $300,000 |
| Size | Mega-Cap - Top 40% aggregate free float adjusted market weight |
| Large Holdings | Aggregate holdings of at least $1,000,000 |
| ESG Credentials | ESG Risk Rating <30 (High Risk)<br>GHG Instensity - Min 200 |
| Focus Lists | Cross Over with Systematically Important Focus Lists<br>CA100+, NZB, Nature 100, G-SIB |

This is to ensure that our voting coverage includes those companies considered systematically important in addressing climate-related risks Including these globally recognised focus lists, that identify companies with poor ESG practices or high ESG risks, ensures that our voting decisions align with broader industry concerns in relation to carbon and nature. For example, Nature 100 targets  companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030.

## External validation

External validation, ratings, or certifications assess our stewardship practices and compliance with industry standards and best practices.

### UK Stewardship Code

By signing up for Stewardship Code we were subject to external scrutiny and assessment of our stewardship practice. This demonstrates our willingness to be held accountable for our stewardship activities and to operate with transparency and integrity.

### Independent compliance review

GSI engages an independent compliance consultancy, Cosegic, who also attend our regular compliance meetings. Cosegic monitors our compliance program, reviews policies and procedures, and ensures that we incorporate any changes to legislation or regulation. Cosegic reports any issues to our Compliance Officer.

### Policy gap analysis

Minerva conducts benchmarking on asset managers' voting policy gap analysis. The review, against a wide set (not just Minerva's clients), assessed us in October 2023 and found no gaps, affirming alignment.

| Investment Manager | Audit & Reporting | Board | Capital | Corporate Actions | Remuneration | Shareholder Rights | Sustainability |
|---|---|---|---|---|---|---|---|
| GSI LLP | Aligned | Aligned | Aligned | Aligned | Aligned | Aligned | Aligned |
| Comments | GSI's voting policy is aligned with the ICGN Global Governance Principles and good corporate governance practices | | | | | | |

| Table Key | |
|---|---|
| Aligned | This aspect of the manager's policy is aligned with good practice |
| Limited Disclosures | This policy pillar could only be partially assessed on the information available in the manager's voting policy |
| No Disclosures | This policy pillar could not be assessed due to lack of information in the manager's voting policy |
| Not Available | The Manager's voting policy was not disclosed for analysis by Minerva |

### Independent research review

Mainstreet conducted third party review of our strategies.

Their assessment provided an insightful independent review of our sustainable investment processes. Positive scores were awarded for the degree of ESG integration, considering product type. They also noted our choice of Sustainalytics over other ESG providers as a positive reflection. Regarding collaborative engagement, they commended our significant efforts, indicating strong assurance in this aspect. 'We would like to commend you on the collaborative engagement efforts and have reflected your significant efforts'.

The balanced review highlighted some aspects detrimental to the strategy from an ESG perspective. Firstly, the size of the firm limits' direct engagements, and our intentions or additional actions weren't sufficiently clarified.

The next step in integrating assurances into our process involves the following additions:

1. Engagement documentation: We will maintain comprehensive records of engagement activities, including meeting notes, correspondence, and action plans. This documentation will demonstrate our adherence to stewardship objectives and facilitate accountability.

2. Performance measurement: We will endeavour to implement robust performance measurement metrics to assess the effectiveness of stewardship activities. These metrics will help us evaluate whether our actions lead to improvements in corporate governance practices, environmental performance, and long-term shareholder value.

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## Fair balanced and understandable reporting

The stewardship code stipulates the necessity of delivering reporting that is fair, balanced, and comprehensible, principles with which we agree. We recognise the importance of this requirement and consider it an integral part of our standard practice. Such reporting must also be both comparable and relevant. We therefore ensure that our fund and stewardship reporting meet these criteria.

We share information to clients, researchers, and prospective clients through fund factsheets, thought leadership 'perspectives and viewpoints,' research papers, webinars, and face-to-face meetings. We produce detailed attribution and performance, and risk analysis and half yearly detailed investment managers reports. We publish our information on our website and thought pieces under our 'Insights' section ensuring the information is freely accessible.

Gemini, the management company of our funds, publishes audited fund annual reports.

Our voting records are available on the website, and we summarise our stewardship activity in reports to clients.

To support our communication and marketing efforts, we engage the service of Robin Powell.

Robin is an author and journalist specialising in finance and investing, and a campaigner for a fairer, more transparent asset management industry. He is the founding editor of The Evidence-Based Investor. Robin regularly produces reporting and material, supplementary to our regulated reporting requirements, which has been produced specifically to be fair, balanced, and understandable for our client base.

### Stewardship reporting

In alignment with our stewardship activities, we produce updates on our stewardship and voting activities at all regular client updates and prospective client meetings. We publish full disclosure of voting records on our website and report on our stewardship activities through the Stewardship Report and regular updates. In 2023 we introduced our first Stewardship Report based on our application for the Stewardship Code. We update all relevant policies, including our Responsible Investment Policy annually and these are available on our website.

Communication and reporting to clients refer to **Principle 6.**

## Outcome

Our focus remains on enhancing and aligning our sustainable activities with industry best practices and within line with our firms' strategic intentions. This commitment ensures transparency in regulatory, client, voting and stewardship reporting while upholding our responsibility to combat greenwashing as mandated by regulators.

With the Stewardship Report, our intent is to offer a clear overview of our activities, policies, and procedures in a readily understandable format. This comprehensive review has and approved by our investment team and compliance officer to ensure fairness, balance, and accessibility to all stakeholders.

See **Principle 9** and **Principle 11** and **Principle 12,** for more details on our engagement approach

PRINCIPLE 6

SECTION 2

# Investment Approach

## Principle 6:
## Client and Beneficiary Needs

*Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*

GSI was founded on a philosophy to deliver improved returns for our clients through factor based in investing.

What GSI stands for is in our company name and the name of our funds.

We only invest in ***global equities***
We are wedded to ***systematic*** investing
All our funds are managed ***sustainably***
We focus on ***value*** and other factors

## Understanding client needs

GSI has a client base built on a mutual investment philosophy and most of our clients share a common set of values, beliefs, and objectives when it comes to managing their investments. Our network is UK focused and primarily composed of investment professionals who adhere to an evidence-based investment philosophy.

Our narrow focus enables us to provide specialised expertise, consistent service, unique differentiation, and agile responsiveness. Ultimately, we believe these benefits lead to better investment outcomes for our clients.

By understanding and aligning with our clients' investment philosophy, regional preferences, investment style, and asset class preferences, we have built investment and distribution models based on strong, long lasting relationships grounded in mutual trust and understanding.

We place a strong emphasis on understanding and addressing the specific needs of our clients and beneficiaries in all aspects of our investment and stewardship efforts. Our commitment to transparency and open communication is integral to our approach.

> "
>
> We have enjoyed a close working relationship with GSI. We have found the team to be an extremely proactive and responsive fund manager, to work with including launching a deep-value sustainable factor-based fund in response to our requests for such a product.
>
> Craig Burgess – CEO, ebi portfolios

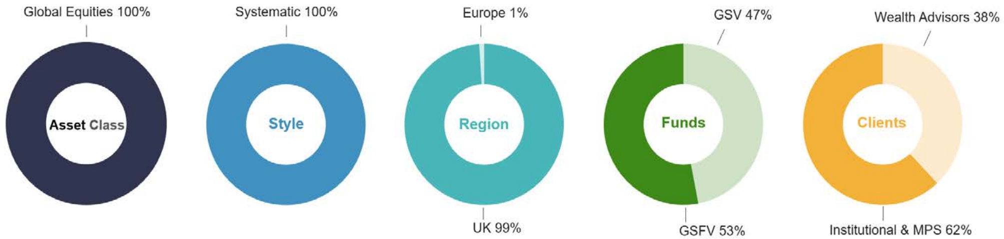
## Distribution

Our distribution network primarily targets the UK and is predominantly comprised of investment advisors dedicated to evidence-based investment strategies. The majority of our assets (62%) are managed through discretionary fund advisors and small institutions as part of model portfolio services. We do not engage directly with individual consumers.

Our assets under management as at end December 2023, originated from clients in the following two regions:

| UK | Europe ex UK |
|---|---|
| AUM £572m | AUM £4m |
| Platforms > 26 | Platforms = 2 |

We exclusively manage one asset class, global equities, primarily concentrated in one region—the UK.

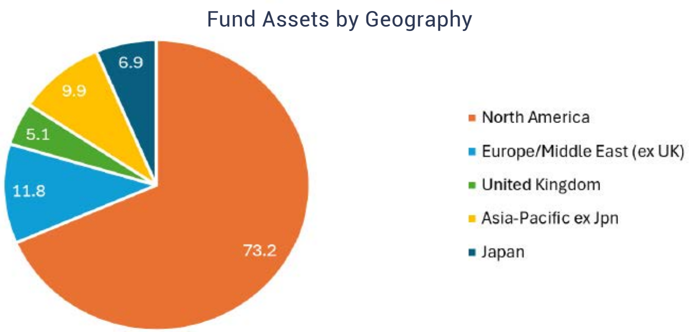



Source: GSI. Data as at December 31, 2023.

## Developing suitable products

Our funds are centred on client preferences. To meet investor needs we designed global equity funds with the objective to deliver higher returns for our clients through diversified factor-based portfolios with high investment capacity, low turnover and low transaction costs and sustainable integration.

Our funds are well diversified global equity strategies. We believe in diversification across stocks, sectors and countries which helps reduce risk. The eligible universe is divided into 3 regions: Europe, North America and Asia Pacific and market weights are applied across each region.




GSI manages two sustainable investment funds: the Global Sustainable Value Fund (GSV) and the Global Sustainable Focused Value Fund (GSFV). The main difference between the two strategies is the degree of factor tilts.  Both funds are managed sustainably. Investors can choose between funds based on their risk tolerance, investment goals, and preferences for factor exposure. GSV was the first strategy opened and was intended to be used as part of a core equity allocation. GSFV is more focused and aggressive in its factor tilts, to small and value, compared to GSV, having greater exposure to factor risks.

GSFV was designed as our clients sought a sustainable fund with a stronger value exposure. There is limited availability of factor-driven sustainable solutions. We leveraged our core capabilities to design a product specifically tailored to meet the clients requirements.

As of December 31, 2023, our total assets under management amounted to £576 million, marking an increase of £176 million compared to the previous 12 months. These assets are evenly divided between our two strategies, with 47% allocated to GSV and 53% to GSFV. It's important to note that our entire asset base is invested in global equities.

## Investment horizon

Academic literature emphasises the importance of maintaining a long term perspective for value investing.

GSI's equity strategies adopt a strategic, long term approach across market cycles, resulting in low portfolio turnover and extended security holdings. We recommend investment timeframes of five years or more, in line with patient capital and value-oriented investing principles. Returns of individual factors can vary sharply from one year to the next and timing market allocations is notoriously difficult.

Given the volatility of individual factors and the challenge of timing market allocations, the probability of outperformance increases with longer investment horizons.

Investment durations are contingent upon individual financial goals, risk tolerance, liquidity needs, age, and life stage. The majority of our clients, comprise of regulated financial advisors and wealth managers, understand their clients' specific circumstances A long-horizon investor willing to stay the course, and hold a portfolio combining multiple factors, should benefit from a more positive investment experience.

## Client feedback

GSI is centred on managing assets in alignment with clients' principles. We have always worked collaboratively and align our core values and capabilities with those that clients want, and investors need.

During the reporting period we conducted a number of activities focused on understanding the sustainability concerns and values of clients.These included the following:

### Product Involvement Screens

At client meeting we often discuss our product involvement screens. For example,  Should we screen for military contracts and controversial weapons:

In light of increasing global unrest, the perspective of investors on funding weapons, conflict, and surveillance has become more nuanced. While investing in weapons may boost portfolio performance, it also poses significant human rights and environmental risks. Conversely, some argue that investors have a duty to support national security efforts. We sought input from clients and the unanimous view was to maintain our current policies.

### Pass-through Voting

We conducted a feasibility study with clients to explore the benefits of offering pass-through voting and expression of wish service (through Tumelo). GSI initiated these discussions and facilitated the opportunity of a bespoke arrangements for clients of GSI. Through a lengthy process, to gauge the additional service's value to our clients and their beneficiaries, it was not pursued due to complexities and lack of end investor interest.

### Engagement Practices Survey

Some of our clients are affiliated with an Impact Investment Academy. A client requested we complete their brief survey.

This survey served as a catalyst for a more in-depth discussion on our evolving stewardship practices. Including minimum best practices they expect from their asset managers.

We carefully listened to their feedback. This pinpointed the primary concerns for advisors interested in impact investing. From this, we created a standardised GSI Engagement Q&A which addresses specific areas of concern, and as such, helped improve our transparency and our focus of client stewardship priorities.

## Client communication

### Meetings

GSI seeks to be a conduit for knowledge and information for clients. To facilitate this information flow we have scheduled regular touchpoints with clients. These include half-yearly face-to-face review meetings with the investment team, quarterly conference calls, and monthly fund reporting.

We prefer to meet in person or pick up the phone, when communicating, rather than relying on blanket informal emails. GSI strongly adheres to the research that face-to-face communication fosters deeper connections and understanding.

Source: Albert Mehrabian , "Silent Messages: Implicit Communication of Emotions and Attitudes" (1971).

Meeting regularly and direct conversations allows for nuances to be fully appreciated, enhancing trust and rapport in relationships. By consistently engaging with clients and providing updates on relevant information, such as portfolio performance, market insights, and stewardship results, we demonstrate our transparency, accountability, and responsiveness to client needs.

This helps us understand their current and evolving stewardship requirements and deliver relevant and practical support.

> "
>
> We have enjoyed and our clients have benefited from working with GSI. The reputation and integrity of the managing partners is extremely important and reassuring.
>
> Ben Sherwood - Director
> Satis Wealth Management

## Documentation and reporting

GSI works closely with GemCap to ensure that the offering documents, including the prospectus and KIIDs, provide the appropriate information for investors to make informed decisions. In addition, we provide investment performance and risk statistics to clients and prospective clients, through fund factsheets, attribution analyses, thought leadership, podcasts and research documents.

Our website provides information on our stewardship and investment activities, particularly about how we incorporate sustainability into the investment process.

We provide stock-level data and portfolio returns to Morningstar, a popular source of knowledge for our client network. Morningstar publishes fund analysis on their website includes detailed sustainability scores for each of the funds it analyses. Both funds have been rated Low Carbon.

Our fund details are also available on the Fund Eco Market database.

## Stewardship reporting

Since we commenced aligning stewardship with client priorities and values, at the end of 2021 we have made great progress against targets. As described in **Principle 2**, our stewardship pathway has been steep. During this reporting year we have expanded our memberships with targeted industry initiatives, joining the IIGCC and active in 3 working groups, expanded our voting and refined our process of reporting voting results and continued with our collaborative engagements with ShareAction. Within the investment team, we continually refine our integration process, and we are we have been embracing the regulatory requirement of SFDR (and SDR) and reporting this progress with clients.

Progress against reporting improvements is steady.

- Updated voting and stewardship reporting for clients semi-annually
- Statistics on voting results yearly
- ESG attribution and performance analysis broken down per region and factor quarterly
- Full voting records published on our website semi-annually
- Stewardship Code annual report which includes examples and case studies available on website
- White papers on ESG themes – e.g. Carbon Intensity: Value strategies and CO2 emissions

To further increase transparency and meet evolving best practices in proxy voting disclosure, we have a long list of possible enhancements to consider. We prioritise this list through consultation with our clients. This includes better climate targets, transition pathways and DEI metrics, better reporting on our alignment with SDGs, escalations, and additionalities.  Much of the progress relies on availability of data sources.

By regularly gathering client feedback, we monitor client concerns on our stewardship and outcomes and gain invaluable insight into the issues that are top-of-mind with investors. We are aware that this coming year's regulatory changes are concerning most.

## Outcome

We have confidence in the effectiveness of our methods for understanding client needs, supported by the positive feedback we receive from client testimonials. Strategically, we prioritise stewardship efforts to align with our capabilities and limited resources. Through expanding our coverage and influence in stewardship via strategic relationships and implementing a robust voting policy, our goal is to safeguard and enhance shareholder value. We have identified a pathway of continual improvement which we are navigating. Stewardship stands as a vital pillar of our investment process, showcasing our dedication to being responsible stewards for our clients and their interests.

PRINCIPLE 7

SECTION 2

# Investment Approach

## Principle 7: Stewardship, Investment and ESG Integration

*Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

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## Integrating sustainable investment practices

All GSI's funds systematically integrate material environmental, social, and governance risks to investment decisions. We seek to use stewardship activities to protect and enhance shareholder value across all our equity strategies, as discussed in **Principle 1**. We currently only manage developed markets global equity funds. All funds integrate sustainable investment practices. We are committed to enhancing our methods for identifying and mitigating risks within our portfolios.

We continuously refine our approach to integrating ESG factors to align with our long-term investment perspective and expectations of our clients.

### Five-step approach

There are five steps to GSI's approach. The first three involve the integration of ESG risk ratings, screening, and exclusions, the next two incorporate voting and collaborative engagement.

| 01 Adoption of Sustainalytics ESG Risk Ratings | 02 Alignment with UN SDGs and screen for UN Global Combat Violators | 03 Target low carbon through reducing carbon intensity & fossil fuel exposure | 04 Exercise shareholder rights by proxy voting | 05 Influence collectively for stewardship and investor advocacy |
|---|---|---|---|---|
| Adoption of Sustainalytics ESG Risk Ratings. | Alignment with UN SDGs and screen for UN Global Combat Violators | Target low carbon and reduction in fossil fuel exposure | Exercise shareholder rights by proxy voting | Influence collectively for stewardship and investor advocacy |
| Tilt factor portfolios toward companies with lower ESG risk. | Exclusions based on SDG product involvement screens. Also exclude for cluster bombs & violators of UN Global Compact principles | Reduce overall exposure to both fossil fuel based & high carbon intensity companies by at least 50% compared to the benchmark | Develop and implement voting guidelines on shareholder proposals | Being active stewards through collaboration and leverage our influence to drive for sustainable value and real-world changes |

## Step 1: Adoption of Sustainalytics ESG Risk Ratings

We prefer ESG risk ratings over the standard ESG approach for several reasons. Firstly, these ratings assess each company based on the specific ESG risks pertinent to its business model. Secondly, they establish a more direct correlation between the ESG risk ratings, and the actual ESG risks faced by the companies. Lastly, these ratings offer comparability across sectors and companies.

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.

**ESG risk ratings measure the following three main criteria:**

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

This risk metric is calculated by aggregating the unmanaged risk factors associated with the most relevant ESG issues for a company. For instance, if a company fails to effectively address material ESG concerns like carbon exposure or labour rights violations, it may face heightened risks such as regulatory scrutiny or reputational damage.

We tilt holdings in our portfolios towards companies that are assessed to have lower ESG risk ratings whilst maintaining the required exposure to our investment factors.

Material ESG issues are the central building block of Sustainalytics' ESG Risk Ratings. Underpinning their 20 material ESG issues are more than 250 ESG indicators, which enable us to understand how exposed companies are to specific issues and how well companies are managing these issues.

### Integrating ESG Scores

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.

We create an ESG score based on the underlying ESG risk ratings by subtracting the risk ratings from 100 so that higher transformed ESG score companies have a lower ESG risk rating.

This score is then ranked separately within mega/large and within mid/small cap to lie between 0 and 2. This ranking procedure is similar to the procedure we use for our investment factors.

## Step 2: Responsible investment screens

As part of our sustainable investment process, we adhere to several responsible investment principles and practices including screening to align with international standards such as the Sustainable Development Goals (SDG) and United Nations Global Compat (UNGC) and avoid investments in controversial sectors like cluster bombs.

Both the SDGs and UNGC set the international standards for sustainability and corporate responsibility. By integrating these screens into our investment process our portfolios align with broader global efforts to identify and mitigate risks related to environmental damage, social injustice, and unethical governance practices.

Investments that conflict with SDGs or violate UNGC principles may also pose higher financial risks due to regulatory penalties, reputational damage, or operational disruptions.

These screens position our portfolios to avoid companies that engage in harmful activities, while supporting those that contribute to a healthier and more equitable world.

The investment committee monitors instances of non-compliance with these regulations and standards, as well as violations and ethical misconduct.

### Sustainable Development Goals

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.


If a company derives more than 10% of its revenues from any of the product involvement areas, we exclude it from investment. In 2023 we excluded 77 companies on that basis. This was a fall from 102 in 2022.

### SDG Exclusions

Exclusions cover various sectors, including pharmaceuticals, leisure & entertainment aerospace and defence, utilities, and consumer discretionary.

For instance, **Bayer**, a pharmaceutical company based in Germany, is excluded due to its involvement in pesticides and GM crops. **Rolls Royce**, an aerospace and defence company headquartered in the UK, is excluded because of its military contracts. **Duke Energy**, a utility company in the US, is excluded due to its reliance on thermal coal for electricity generation and **Imperial Brands**, a consumer discretionary company in the UK, is excluded due to its involvement in tobacco products.

### United Nations Global Compact

In addition to adhering to the Sustainable Development Goals (SDGs), GSI requires companies to adhere to the principles of the United Nations Global Compact (UNGC). Violations of these principles may result in exclusion from our investment universe. The UNGC promotes sustainable and socially responsible business practices through ten widely accepted principles covering human rights, labour standards, the environment, and anti-corruption. Sustainalytics monitors compliance for over 20,000 issuers globally, identifying companies that are non-compliant and actively updating their 'watch list'.

### UNGC Exclusions

In 2023, GSI excluded 4 companies for non-compliance with the UN Global Compact Principles, a decrease from 11 in 2022. This reduction reflects an improvement in corporate behaviour rather than a change in GSI policy.

We continue to exclude Wells Fargo, a prominent US bank. It is found to be non-compliant with UNGC Principle 10, which addresses combating corruption. Sustainalytics assessed Wells Fargo's failure to work against corruption and uphold this principle, specifically in addressing extortion and bribery.

### Removal of Cluster Bomb Munitions Manufacturers

Certain munitions do not discriminate between combatants and non-combatants, leave post-conflict residual dangers, and frequently pose great danger to children. Compounding these issues is the cost of post-conflict clear-up, which acts as a barrier to development in poorer communities. In accordance with two UN Conventions, the United Nations has banned all use, stockpiling, production, and transfer of these weapons. The two conventions are The Convention on Cluster Munitions 2008; and The Anti-Personnel Mine Ban Convention 1997.

GSI is aligned with the humanitarian principles of these conventions and excludes all companies involved in these munitions from its portfolios.

Exclusions further described in **Principle 11.**

## Step 3: Carbon concious lens

We recognise 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. Instead, we believe in a just transition and a progressive approach.

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.

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

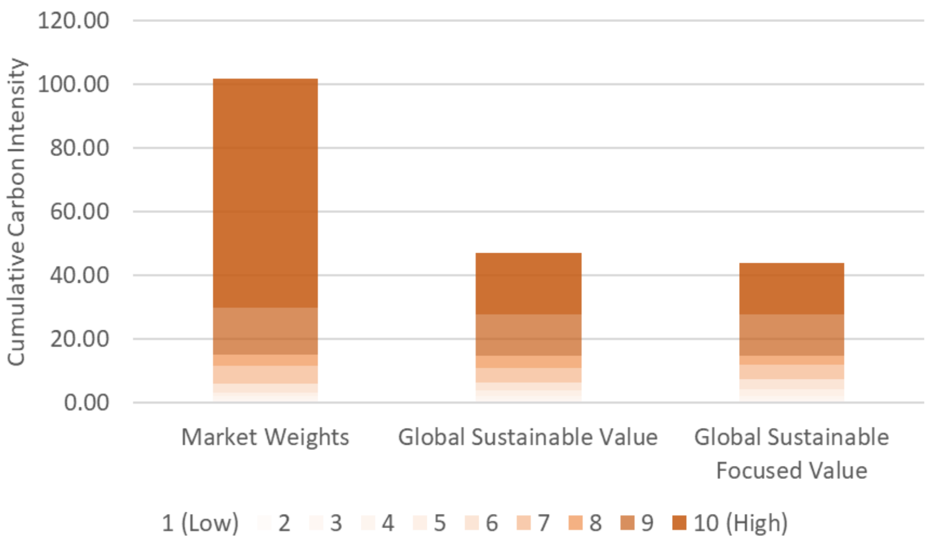
We also target an aggregate level of GHG intensity of half that of our benchmark or lower. To measure the GHG intensity of a company we use the standard definition set by the Task Force on Climate-Related Financial Disclosures (TCFD) which are annual GHG Scope 1 & Scope 2 emissions divided by annual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

Examples of companies excluded due to extremely high carbon intensity are **NextEra Energy Inc.** (US) and **Power Assets Holdings Ltd** (HK), both Utilities.

We also exclude **Holcim Ltd**, a Swiss based building materials company. The good news is Holcim commits to reach net-zero greenhouse gas emissions across the value chain by 2050. They reduced CO2 per net sales by 21 percent in 2022 and aimed to reduce it by a further 10 percent in 2023. Their carbon intensity is still too high to be included in our portfolios at the moment.

It is interesting to note that the carbon intensity of a market weighted portfolio has fallen since 2022 from over 140 to around 100 which has to be good for the planet.  Note: “Market Weights” comprises all names in the Solactive Large/Mid index and all names in our investment universe which extend beyond the Solactive index constituents.

Contribution to Portfolio Carbon Intensity by Carbon Intensity Decile




## Integrating ESG with a factor-based strategy

GSI is a specialist in factor investing. Since 2018 we have crafted a strategy for integrating sustainability criteria using a combination of factor and ESG scores, maintaining the factor portfolios’ risk and return objectives without dilution.

To set our investment universe we use the Solactive GBS Developed Markets Large & Mid Cap Index universe combined with the top-90% of aggregate ranked market weight. We also filter based on total market cap, liquidity, and free float. We apply our responsible investment screens to exclude certain companies (as outlined above), further refining our investable universe.

Source: GSI LLP. Contribution to portfolio carbon intensity by carbon intensity deciles for a market-weighted portfolio ("Market Weights"), the GSI Global Sustainable Value Fund and the GSI Global Sustainable Focused Value Fund based on a large/mid universe. Based on data supplied by FactSet, Solactive and Sustainalytics. The information shown is as of 29 March 2024

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### Combining ESG and Factor Scores

Adjusted ESG scores for the investable universe are then combined with their value scores. Thus, a stock with a higher value score and a higher ESG score will receive a higher weight; a stock with a lower value score and a lower ESG score will receive a lower weight; stocks that lie between those two extremes receive more neutral allocations.

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.

Examples of stocks we invest in which a have high-value score as well as a high ESG score are **Hewlett Packard** (Technology, US); **Cisco Systems Inc** (Technology, US); and **Burberry Group plc** (Cons Discretionary, UK).

When a stock has a high-value score and a low ESG score, it is not excluded but we will generally hold an underweight position relative to the eligible market weight. Examples are **JP Morgan** (Banking, US); **Shell** (Oil & Gas, UK); **TotalEnergies SE** ( Energy, France); and **Panasonic** (Consumer Discretionary, Japan).

Through considering a company's ESG risk rating alongside other factors like value, profitability, and size allows us to choose sustainable assets with the highest return potential for our investors.

With a climate conscious lens, we have proactively pursued strategies focused on reducing carbon emissions, limiting exposure to fossil fuels, and lowering greenhouse gas intensity in our portfolios. Our investment team is exploring additional sustainability criteria to integrate, such as transition plans and carbon footprints.

**Morningstar have given both GSI Funds a 'Low Carbon' designation.**


## Stewardship

GSI's investment stewardship efforts seek to consciously improve governance and corporate practices in a way that we believe may protect and enhance shareholder value. We do this by actively voting and leveraging influence.

"Stewardship is the conscientious and accountable management of resources to promote sustainable outcomes for stakeholders and future generations." - International Integrated Reporting Council (IIRC)

### Step 4: Exercise shareholder rights

GSI considers voting and active stewardship to be an integral part of our approach to sustainable investment. We see exercising our ownership rights as part of our fiduciary duty.

Although GSI is a systematic investor, we retain our rights as shareholders to vote, appoint directors, approve remuneration plans, and encourage reporting on a range of environmental and social issues.

We work with Minerva to exercise proxy voting rights on a target list of 200 prioritised stocks held across our funds.

Our voting policy is designed to encourage both better corporate governance and discourage poor management of material ESG considerations.

Proxy voting records further described in **Principle 12**.

## Divesting

GSI generally believes that we better serve our clients by putting pressure on companies to encourage better standards of corporate governance rather than divesting. We may divest on ethical grounds human rights violations, environmental degradation, or unethical business practices.

When a company's activities or practices are fundamentally at odds with our sustainability objectives, or are involved in a high degree of controversy, begin to receive a significant source of revenues from an excluded business (e.g. tobacco, thermal coal etc.), or in any way fall foul of our screens and scoring, we will exclude it from further investment, review our holdings, and, if considered appropriate, divest all holdings in the company.

Divestment may also be warranted if our monitoring research highlights a company lacks the commitment to meaningful change and it is classified as having high material ESG risk.

We rebalance our portfolios when companies are reclassified and no longer comply with our ESG and factor criteria.

Exclusions further described in **Principle 11**.

## Step 5: Influence through advocacy

Over the reporting period we continued to work with other investors on coalitions at Share Action and joined the IIGCC where we are in the early stages of being members of three working groups. We extended our advocacy reach to include being a member of CA100+ and NZEI earlier this year.

GSI seeks to have a greater influence on outcomes by leveraging our size in collaboration with others.

Other ways we work to be an active advocate is supporting policy engagement – over this period we have participated in industry meetings on the SDR and meetings of ESG risk rating agencies.

Stewardship further described in **Principle 10**.

IIGCC
The Institutional Investors Group on Climate Change

## Monitoring

Our ESG rating score is based on a set of underlying cross-industry and industry-specific key performance indicators weighted according to an industry-specific weight matrix. These include 60-80 cross-industry and industry-specific indicators covering ESG topics across four pillars:

1. **Preparedness:** An assessment of how each company's management systems and policies are designed to mitigate material ESG risks, including health and safety, and targets for hazardous waste.

2. **Disclosure:** Assessment of the degree of company transparency on material ESG issues for stakeholders. Examples include: tax transparency per country and scope of greenhouse gas emissions.

3. **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.

4. **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 are sourced from one or more specialist external ESG data providers, including Sustainalytics, StyleAnalytics, Bloomberg and Minerva, and from our own internal research. We also receive controversies alerts from Gemini (our fund umbrella provider), who also watch our exclusion list on an ongoing basis.

Monitoring service providers further described in **Principle 8**.

We continuously monitor and assess the suitability of our portfolio companies. Events may happen faster than they can be incorporated into our data feeds by our external providers. In these circumstances, we may modify the ESG scores to reflect current events which have yet to be reflected in the data provided externally.

We systematically review our external data sources' quality and timeliness and respond with feedback and remediation measures when they have not met our expectations.

The ESG Data and Ratings Working Group (DRWG) at Sustainalytics are in the process of working to become a signatory of the Code for the ESG Risk Ratings. We highly value the move to improve clarity regarding the operational practices of ESG rating agencies and push for greater transparency in their methodologies and data sources.

## Outcome

ESG issues and stewardship issues including material environmental, (carbon, nature, and biodiversity), and social and governance issues are integrated into our investment process in a systematic manner. We do this in a way so that these issues do not detract from the expected returns of our portfolios.

By aligning our investment decisions with ESG principles and climate-related imperatives, we align our fiduciary duties, generate long-term value for our clients, and contribute to a more sustainable future.

PRINCIPLE 8 ▸

SECTION 2

# Investment Approach

## Principle 8: Monitoring Managers and Service Providers

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

GSI leverages a host of external third-party service providers to enable our ESG capabilities. These consist of ESG data and research providers, proxy advisory firms, compliance, and regulatory advisors. Examples of our service providers include Sustainalytics (a Morningstar company), FactSet, StyleAnalytics (part of InvestmentMetrics now Confluence), Minerva Analytics (a Solactive company), and Cosegic (formerly Compliancy).

As an asset manager constantly dealing with sensitive data and information, we have a robust review policy for external service providers. This includes assessing the potential impact on data accuracy, data privacy, confidentiality, and security.

## Sustainalytics

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 risk approach to ESG scoring and the depth and breadth of their coverage.

SUSTAINALYTICS

Sustainalytics provide higher coverage in small and micro-cap which ensures extensive ESG coverage across our wide investable universe of stocks.

Sustainalytics provide ESG scores on more than 4,500 companies globally, which are evaluated within global industry peer groups. In addition, Sustainalytics tracks and categorizes ESG related controversial incidents on more than 10,000 companies globally. We use both sets of data when we develop our internal ESG score.

### Sustainalytics Key Benefits

- Company profiles updated annually with the corporate reporting cycle
- Research analysts leverage AI powered smart technologies to enable them to monitor more than 60,000 media sources, and up to one million news articles daily
- Analysis by a team of over 800 ESG research analysts supported by artificial intelligence-powered descriptive and predictive analytic capabilities
- Robust quality control mechanisms with peer reviews by senior analysts and company feedback mechanisms


Sustainalytics data sets include various raw metrics such as greenhouse gas emissions, total potential emissions, coal involvement, revenues earned from alcohol production, revenues earned from tobacco production, and more, attributed to the issuer.

Additionally, GSI receives controversy-related metrics such as child labour controversy scores, business activity information such as involvement in the production of cluster munitions, sustainability-focused industry codes, and other related measures.

Sustainalytics deliver updates to their data sets on a monthly basis. Style Analytics also update their data monthly and FactSet data is updated daily. GSI recognises that ESG research and data are evolving at a rapid pace.

We are in discussion with several providers reviewing the availability or several key environmental and sustainable data and benchmarks. For example, tracking progression across the climate transition journey by company, sector, and geography.

## Data monitoring & due diligence

GSI's framework for our assessment of the quality of services includes, due diligence, risk assessments, ongoing monitoring, and the evaluation of compliance with relevant regulations or codes of conduct.

For data providers due diligence monitoring is done to ensure data providers are providing on-time deliverables and accuracy. The investment team monitors the quality of data by conducting various validations such as comparing data between vendors, analysing changes in data over different periods, assessing for reasonableness, and using other quality assurance methods.

If any problems related to data quality arise during these quality checks, they are brought to the attention of the relevant vendors and are closely monitored until they are resolved. This ensures that data providers are providing the most up-to-date information prior to being integrated into our investment process.

We maintain regular contact with service providers, allowing us to address questions on data in a timely and effective manner.

For data providers, such as StyleAnalytics our due diligence monitoring is constant, we are reviewing on-time deliverables, accuracy and the quality of the service on a regular use basis. At times, we identify issues with the data we receive.

In June 2023, our own manual checks revealed that StyleAnalytics had inaccurately specified the level of revenue involvement in shale oil or gas for four US and two Canadian companies. Upon identifying this error, we advised StyleAnalytics, and promptly applied exclusions and divested from the stocks.

For other service providers, like Vident and Cosegic, we regularly monitor our service providers' performance against the set standards and evaluate whether they have met our needs, reviewing service level agreements (SLAs), key performance indicators (KPIs), and other relevant metrics. For example, Vident best execution is tracked daily.

We are generally happy with the services provided. If errors or problems were to arise, we start by discussing the issues, setting clear expectations for improvement, and establishing a timeline for corrective action.

If there is a service failure that puts our reputation or security at risk, or if they consistently fail to meet the expected criteria, we will explore options to move providers. Replacement vendors are assessed on technical capabilities, security protocols, track records, and compliance with relevant regulations and suitability.

StyleAnalytics

## Review of proxy voting platform

We commenced using Minerva in April 2022. We have an agreed process to review the capacity, competency, and robustness of its policies and procedures. As part of this agreement, Minerva provides regular audit and reporting and assessment as described below:

### Audit structure

Monthly - vote audit reports available either online or in spreadsheet formats.

Quarterly - spreadsheet or a downloadable web page with a summary page and underlying data on two KPIs:

- % of votes submitted to Minerva by the voting deadline for the active priority holdings
- % of actual votes (meeting events) executed by the voting deadline by Minerva for the priority and non-priority holdings as a percentage of GSI's total vote entitlement for all relevant holdings

### Review meetings

In addition, we have agreed to two review meetings annually:

1. **Audit** – assess the processes and procedures they followed when making proxy voting recommendations based on our custom Global Proxy Voting Policy. At this annual review, agreed KPIs and any material changes in the services, operations, staffing or processes will be examined.
2. **Policy Review** - refresh our voting policy guidelines and bring any new issues or stewardship focus into play. One advantage of Minerva's service is that we have the ability to review, amend, and upgrade our custom policy at any time.

## Audit of voting

It was agreed to hold our first audit after the proxy season of 2023 had concluded. This was held in October 2023.

At this meeting we reviewed the voting results and suggested changes to our voting guidelines base on the findings from Minerva's 2023 Proxy Voting Review. These included

- Strengthened expectations on ESG performance criteria in executive pay to encourage high-quality measurable metrics, rather than discretionary assessments
- Inclusion of expectations on time-based sunset provisions for dual-class structures
- Strengthened expectations on climate disclosures
- New section on natural capital and deforestation
- New section on responsible tax

A copy of our updated GSI Voting Policy Guidance is always available on our website.

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## Voting contrary to policy

As part of our regular review of voting practices, we had noted there were 3 votes cast contrary to policy. The companies involved were Diageo, Amazon, and Morgan Stanley. We raised this with Minerva.

Minerva noted that during peak season re-calculations are frequent and sometimes occur after the voting deadline for certain clients, which applied to the three votes in question.

The Minerva voting team recalculate our template guidance when certain default guidelines are updated. However, in these cases GSI had already confirmed our voting intentions

The voting team currently do not inform clients when template recommendations have been updated. Currently, there is no way to determine if a client's vote recommendations are changed by a re-vote. Our account managers are liaising with the Voting team look at ways of improving this process. We will monitor and anticipate procedural improvements moving forward.

Changes to Proxy Voting Policy is references in **Principle 5**.

## Outcome

We have been satisfied this year with how third-party ESG services have been delivered to meet our needs and expectations.

Strong relationships with our vendors have been fostered over the years so that, despite our scale, they are responsive to our requests when there is an issue with service levels or data quality.

PRINCIPLE 9 ▶

Voting contrary to policy 2023

| Company | ISIN | Event Date | Res Num | Resolution | Res Category | Mg't Rec | Policy Vote | Actual Vote |
|---|---|---|---|---|---|---|---|---|
| Diageo plc | GB0002374006 | 06 Oct 22 | 1 | To adopt the report & accounts for the year ended 30 June 2022 | Report & Accounts | For | Against | For |
| Amazon.com Inc | US0231351067 | 25 May 22 | 17 | To request the Board to report to shareholders on gender/racial pay | Human Rights & Workforce | Against | For | Against |
| Morgan Stanley | US6174464486 | 26 May 22 | 1c | To re-elect as a director, James Gorman | Directors - Elect | For | Against | For |

SECTION 3

# Engagement

## Principle 9: Engagement

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

## Engagement approach

GSI's approach to engagement is aligned with the FRC's, 'Engagement is defined as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'

Stewardship is an important element of our process and we grasp the significance of being responsible stewards including advocating for companies to commit to practices that improve the environment, society, and corporate governance.

As explained in **Principle 1**, our approach to sustainable investing and stewardship considers a broad range of ESG factors that may not directly affect the risk or return of the corporation in the short term but can significantly influence its long-term performance and resilience. These non-financial materialities include issues such as climate change, human rights, labour practices, diversity and inclusion, and supply chain management.

Our engagement policies align with the fundamental belief in our moral and fiduciary obligation to support global decarbonisation and encourage companies to set validated scientific objectives to reduce their GHG emissions in line with the 2015 Paris Agreement.

We are active voters: we challenge management, support shareholder resolutions, and collaborate with other stakeholders to drive systemic change.

## Size and influence

The size of GSI limits our influence and poses practical challenges when considering engagement strategies. It is difficult to engage unilaterally as a small asset manager.

We recognise the likelihood of senior management engaging directly with us is low. Larger asset managers and asset owners often have direct access to the chair, CEO, and senior directors of a company.  Despite these challenges, we firmly believe that responsible stewardship is achievable even without direct engagement.

The options for clients to invest in factor driven sustainable solutions is narrow. GSI understand the complexities of managing value strategies sustainably. Our investors are fully aware of the limitations due to our size and investment style. Clients recognise our efforts in incorporating stewardship into our process over recent years and have expressed satisfaction and support for our approach.

Although we have room for improvement, we appreciate that our efforts have been recognised in different way. Including achieving signatory status of the Stewardship Code in 2023 and through feedback from ESG researchers.

> "We would like to commend you on the collaborative engagement efforts and have reflected your significant efforts.
>
> Jacob Kasaska, Mainstreet Partners.

## Client alignment

Our client base primarily consists of advised clients who are long-term investors. As stewards of their assets, we recognise the substantial responsibility entrusted to us to ensure we uphold their trust and meet their long-term investment objectives.

We seek to align our efforts with their priorities and organisational values.

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Our investors have clearly expressed the importance of engagement practices, that foster sustainable business practices, to them and their clients.

We intentionally engage in discussions with our clients to gain deeper insights into their stewardship priorities and use this information to tailor our efforts. Thanks to our strong relationships and direct access to clients, we have a good understanding their needs. The priorities for their managers include meeting the objectives of the Paris Agreement and collaborating with climate action groups such as CA100+ and IIGCC. Additionally, they have emphasised the importance of ensuring that our policies actively support decarbonisation efforts and promote enhanced governance standards.

We are transparent with clients on ESG activities and include stewardship and ESG attribution reporting in every client meeting. We are working on ways to improve and enhance reporting on stewardship matters.

For further reference to how we consider client and beneficiary needs refer to **Principle 6**.

### Demonstration of commitment

Membership of the Institutional Investors Groups for Climate Change, and participation in Climate Action 100+, signals a commitment to environmental responsibility which aligns with client values and expectations. Active involvement is also a strong signal to clients, regulators, the investment community, and society at large, that we prioritise environmental stewardship and are actively concerned about improving how to address climate-related issues.

## Asset classes and geographies

GSI is a manager of global equity funds. We apply our voting rights uniformly across the geographical scope of our assets. We voted in 16 markets in 2023. We do not differentiate our policies in different regions but consider the nuances of the jurisdictions.

We prioritise our engagement activities with local networks in the UK and Europe, where we can work together with our collaborative partners more effectively. In 2023 this concentrated on European chemical companies.

We have explored the benefits of joining ICCR in the US as we have a large exposure to North American companies in our target list. However, our efforts may be better served with local advocacy. A recent study by Dimson et al.(2023)[4] shows that coalitions of shareholders are more successful when they include influential or local investors. This option is still to be fully explored.

## Methods of engagement

To date we have preferred to influence company behaviour through strategic voting on important resolutions and the power of our voice in collaborative forums. Concentrating our efforts where our involvement adds value and setting realistic expectations and objectives.

### Engage collectively

We collaborate with like-minded investors on sustainability to amplify our impact on companies' behaviour through investor networks, coalitions, working groups, and more.

IIGCC
The Institutional Investors Group on Climate Change

[4] Source: ECGI Working Paper in Finance, Working Paper N° 721/202 May 2023. Elroy Dimson, Oğuzhan Karakaş Xi Li

## Investor Coalitions

Engagement in coalitions such as the Chemicals Decarbonisation Working Group at ShareAction has been ongoing for several years. As part of IDI, we were able to join together with other asset owners in direct conversations with chemical companies like Solvay, Air Liquide, BASF and LyondellBasell to drive decarbonisation in the chemical industry.

GSI is one of 43 members of the ShareAction coalition and have participated in this group for 3 years. Our involvement is explained in **Principle 10.** We are actively participating in investor calls, increasing the diversity of owners voicing concern to the companies concerned of the issues of decarbonising the chemical industry, including scope 3 target setting and transitioning away from feedstocks.

Collaboration case studies refer to **Principle 10**.

**Investor Networks:**
Extending our leverage through memberships of networks like the Institutional Investors Group on Climate Change (IIGCC) to collaborate with other investors on large-scale ESG issues and engage in collective action.

**Company Engagement:**
Engaging with companies through groups like the CA100+, where will be a contributing investor for the AP Moeller Maersk engagement, alongside the PRI, EOS Federated Hermes and others.

**Joint Engagements:**
Joint engagement campaigns are pursued when opportunities arise.We were willing to support ShareAction's forthcoming resolution on Scope 3 emission reduction with Yara, unfortunately adding this to our voting list was constrained by a timing issue.

## Support shareholder resolutions

We are active supporters of shareholder resolutions that align our investment criteria and values. This collective action can be crucial in promoting changes at companies.

We voted for 81% of shareholder resolutions in 2023.

We  participated in ShareAction's special shareholder resolution for Sainsbury's in 2022.  Although interested, it has not been possible to participate any opportunities since. These were against Nestle, Glencore and Yara. Either we did not own shares in the company, or they did not fit the criteria for our target lists. We do not to engage with a company if it is not in our target list at the time of engagement.

When appropriate we will support special shareholder resolutions filed by collaborative partners in the following way:

- Agree to participate in investor calls with the company if appropriate
- Vote in favour of the resolution
- Pre-declare our vote
- Send a letter of voting intention to the company – outlining our support for the proposal
- Publicly support the resolution

ShareAction released a 2023 Resolutions to Watch list with over 20 companies listed– 15 of which were at companies on our target voting list. We voted in favour of all 15 shareholder proposals.

We were one of the few asset managers who voted in favour of the Follow This resolution at BP questioning their climate commitment. We agree with the comments in ShareAction's Voting Matters 2023 Report, 'Using Say on Climate votes to simply agree with management plans – and not reacting when these plans are altered without another vote – constitutes a failure amongst asset managers to exercise their shareholder rights effectively.'

Shareholder resolution voting results are described in **Principle 12** and BP case study in **Principle 11.**

### Other methods of engagement

We are exploring other effective options to engage with limited direct access that are consistent with our resources and investment style, including the use of letter campaigns.

Identify campaigns with others or, using internal research, develop a letter campaign to advise them of our intentions to continue to oppose the approval of their climate policies. For example: companies who have not disclosed progress against environmental key performance indicators.

## Key themes

Issues that may impact a company's long-term value are identified and addressed in our voting guidelines, which in turn direct our engagement. Focus is placed on material issues that represent specific risks to the long-term value of our clients' shareholdings. Specific areas may be escalated if an assessment of severity or violations leads to options to engage.

We have selected 200 companies on which to concentrate our voting efforts and we use this target group as the base for engagement strategies.

- Companies representing significant assets under management across our investment portfolios
- Companies with severe environmental, social and governance (ESG) risks
- Companies highlighted as systematically important by industry groups like CA100+

The main theme in 2023 was decarbonisation.

### Decarbonisation

We know our clients are concerned about decarbonisation.


Source: Voting Matters 2023, ShareAction

We support this theme in three ways:

**1.** Voting policies follow IIGCC, TCFD and the wider net zero objectives.

To support this theme, we have set our voting policies to encourage better disclosure and behaviours. We voted against management on 77% of sustainability votes and in favour of 84% of shareholder votes on environmental practices.

Our voting practice was recently updated with the objective to encourage companies to develop a climate transition plan that discloses the strategy and actions the company intends to take to transition to net-zero greenhouse gas emissions by 2050, or sooner, and support companies who commit to, or enhance, their Science-Based Targets (SBTs) to combat climate change.

When assessing a company's transition plan, we now encourage disclosure on:

- Net-zero Commitment: Companies should disclose a comprehensive commitment to reducing emissions to net zero by 2050 or sooner
- Aligned Targets: Short, medium, and long-term science-based targets aligned with 1.5 degrees
- Emissions Performance: GHG emissions specifying scopes 1, 2 and 3 (breaking out material Scope 3 categories) over time

**2.** Participation in the ShareAction climate initiative.

Actively involved in conversations with European chemical companies to encourage the transition to renewable sources of energy.

**3.** Engage in policy advocacy.

Members of Proxy Voting Working Group and Net Zero Voting Groups and discussions on industry papers and frameworks for setting investors' voting practices in line with net zero objectives and targets.

## Research

GSI is underpinned by academic research. As part of the development of our engagement approach, we aim to explore options available to a systematic manager that are consistent with our investment approach and applicable to our scale and size.

We have followed the research of Kevin Chuah, Assistant Professor of International Business & Strategy at Northeastern University and Director of ShareAction, for some time.

His research interests include how shareholder activism influences firms' strategies.

His recent paper, Tailor-to-Target: Configuring Collaborative Shareholder Engagements on Climate Change, investigates how four coalition composition levers (coalition size, share-holding stake, experience, local access) combine to enable or hinder engagement success.

The study looks at a data set of 553 collaborative shareholder engagements on climate change issues. These engagements involve coalitions of investors pursuing target firms to adopt environmental sustainability practices.

The study prompts investors to move beyond one-size-fits-all approaches to instead tailor their engagement strategies to target firms' receptivity. The research found that coalition size and shareholdings need to be considered jointly and in combination with other levers, such as local access and coalition experience, to facilitate the synchronizing.

The paper recommends institutional investors avoid "silver-bullet" engagement tactics that focus on one investor coalition composition lever in isolation—such as prioritising substantial ownership—at the expense of other coalition composition levers.

We plan to expand on our research throughout the year, including participating in the Stewardship and Engagement Leadership Programme in June at the Smith School of Enterprise and the Environment at Oxford University.

## Outcome

As our activity in stewardship has increased, we are thoughtful about how we prioritise our engagement efforts. We have seen positive results from our collaborative relationships and have consistently voted in line with our intentions of supporting positive sustainable benefits for the economy, the environment and society.

Engaging directly with companies requires dedicated time, expertise, and resources which may not always be feasible for smaller firms like ours. As our Chief Investment Officer, Garrett Quigley, notes, "While engagement is crucial for driving positive change, we must also consider the scalability of our efforts. With a diverse portfolio of companies, it's essential to prioritize our engagements effectively to achieve our sustainability objectives."

> "
>
> While engagement is crucial for driving positive change, we must also consider the scalability of our efforts. With a diverse portfolio of companies, it's essential to prioritise our engagements effectively to achieve our sustainability objectives.
>
> Garrett Quigley, Managing Partner
> Global Systematic Investors LLP

We plan to initiate the following steps to enhance the effectiveness of our engagement efforts in 2024:

- Insight - Establishment of Advisory Board to support GSI on sustainability and engagement

- Review - (and sometimes challenge) the method and process of engagement, drawing on insight from other ongoing engagements and industry best practices, with the assistance of the Advisory Board

- Education - Participate in the Stewardship and Engagement Leadership Programme at Oxford Smith School of Enterprise and the Environment in June 2024

- Extend - Strategically extend our collaborative influence through targeted engagement – CA100+ and IIGCC Bank Working group

- Guidance - Review the UN PRI Active Ownership 2.0 objectives, for guidance on how to shape sustainability outcomes through effective stewardship activities

PRINCIPLE 10

Source: Tailor-to-Target: Configuring Collaborative Shareholder Engagements on Climate Change Rieneke Slager, Kevin Chuah, Jean-Pascal Gond, Santi Furnari, Mikael Homanen
Published Online:15 Jun 2023 https://doi.org/10.1287/mnsc.2023.4806

SECTION 3

# Engagement

## Principle 10: Collaboration

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

Collaborative action enhances our ability to drive positive change and uphold responsible practices, ultimately shaping a more sustainable future.

Being a relatively small manager, our clients are best served when we leverage our rights and influence collectively with others. As defined by the PRI, 'stewardship refers to deliberate deployment of rights and influence (beyond capital allocation) to protect and advance the interests of those clients and beneficiaries.'

The power of crowds is evident in stewardship, where collective efforts yield greater impact. The effectiveness of the impact is often influenced by the number and diversity of participating members. GSI has benefited from joining in groups where our involvement has been welcomed, valued, and contributes to desired outcomes.

**Why work collectively**

We are strong advocates for collective engagement collaborations for the following reasons:

- **Amplified impact:** working together enables investors to pool resources and expertise significantly amplifying their collective influence.
- **Access to resources and specialised insights**: access to expert insights and resources, including research and networks enhances the capacity to engage effectively.
- **Shared learning:** Collaborative engagement facilitates the sharing of best practices.

Over the reporting period we continued to engage with other investors on coalitions at Share Action. We joined the IIGCC and are in the early stages of being members of working groups. We extended our advocacy reach to include CA100+ and NZEI and are exploring other opportunities.

> In stewardship, there's strength in numbers. Working collectively empowers us to amplify our voices and drive meaningful change."
>
> Kate Hudson, Managing Partner at Global Systematic Investors LLP

## Review Of Collaborative Actions

In 2022 we participated in the Sainsburys Living Wage resolution as part of ShareAction's Good Work Coalition. This was our first experience with publicly supporting a resolution of this type.  As a consequence of the unforeseen strong dichotomy of views on this resolution, in 2023 we were more cautious. Assessing, more carefully, whether to engage in or withdraw from company engagements ensuring that any such involvement effectively supports our strategic goals.

This reassessment helps ensure the participation in any coalition leads to tangible outcomes rather than symbolic gestures.

We are conscious of values and strategic misalignments. We are not impact investors and if a coalition's approach to addressing an issue is more aggressive or confrontational than GSI deems appropriate we may review our involvement.

We remain members of both the Chemicals Decarbonisation Investor Coalition and Good Work Coaltions at ShareAction.

As explained in **Principle 9**, there has been limited opportunities to participate in further shareholder proposals with ShareAction in 2023 as the companies in the campaigns did not fit our escalation and voting criteria.

## Investor Coalitions

We are willing to act collectively with other shareholders where it:

- will be more successful than acting individually
- is considered consistent with the Firm's objectives
- is in the best interests of the Firm's client
- is in compliance with the law and regulation

We also conscious of antitrust regulations and undue and/or unfair pressure exerted on companies as a result of collective engagements and lobby groups.

### ShareAction

In late 2021, GSI met with Share Action to explore how it worked and if we could work together.

We decided that the two logical areas of focus at this time were the Climate Action and Good Work initiatives. We believe collaborative engagement can be a powerful tool in effecting change and we continue to work with these groups.

**Chemicals Decarbonisation Investor Coalition:**

An initaitve working to encourage companies to move beyond making broad commitments and target-setting, to adopting credible, sector-specific climate transition plans with 43 active members

The group's mission was '[Harnessing investor power to accelerate corporate climate action](#)'.

**The Good Work Coalition:**

This is an initiative to support 'collective action to drive up standards in the workplace' and has over 41 members.

### Chemicals Decarbonisation Working Group

We had been active members of ShareAction's IDI and the Chemical Decarbonisation Working Group for 3 years. Chemicals Decarbonisation Investor Coalition was a sub-group of the Investor Decarbonisation Initiative (IDI).

The broader IDI is no longer active with focus moving to the Chemicals Decarbonisation Investor Coalition.

Over the reporting period, we continued to be one of the active members of the working group alongside EOS Federated Hermes, LGIM, Jesuits of Britain, Aviva, Amundi and other companies of all sizes, with collective AUM/AUA of US$ 8.5trn.

We were involved in investor engagement calls with several European chemical companies including Solvay and LyondellBasell, BASF and Air liquide.

This coalition gave us a way to leverage our voice with others in this important area of climate action and see tangible improvements.

The group continues to encourage the sector decarbonises in alignment with the 1.5-degree Paris goal since 2021.

### Background - chemicals

Over 95 percent of manufactured products rely on chemicals. Consequently, the sector is responsible for over 6.3 percent of global greenhouse gas (GHG) emissions.

As part of the European Union's aim of carbon neutrality, the European chemical sector has committed to net zero emissions by 2050. Yet credible transition plans in the sector remain scarce.

It is technically feasible to fully decarbonise the production of chemicals by 2050 and becoming increasingly economically viable.

At the time the coalition started, only two out of the 21 Stoxx Europe 600 Chemicals companies had a Science Based Targets initiative (SBTi)-approved 1.5C target.

With pressure from groups like this coalition, there has been progress. A total of 7 Stoxx Europe 600 companies now have set targets validated by the SBTi as 1.5C aligned and another 4 have set targets which SBTi-validated as well below 2C aligned.

With record-breaking temperatures, rampant wildfires, and extensive flooding becoming more frequent, as a group, we are are increasingly alarmed by the chemical sector's sluggish response in addressing the urgent need to cap global warming at 1.5°C.

By stewarding chemical companies to adopt a credible strategy there are commercial advantages by rapidly scaling new processes, feedstocks and circular products and ultimately benefit our clients' interests (and the planet).

The main ask of European Chemical companies of the groups is:

- Include relevant Scope 3 emissions in its net zero by 2050 commitment and set more ambitious intermediate targets
- Make a timebound commitment to zero emissions from energy consumption through electrification and 100% renewable energy
- Set out plans to achieve emissions-neutral feedstock by 2050 with clear intermediate targets

Getting Scope 3 commitments continues to be a challenge.  ShareAction is keen to move towards a focus on feedstocks to solve for this, rather than grapple with data collection.

## Good Work Coalition

GSI joined this initiative to support 'Collective action to drive up standards in the workplace' and work with 41 other diverse investors in this coalition

There is growing evidence that the corporate financial performance of companies that look after their employees will outperform those that don't. ShareAction's Good Work Investor coalition aims to engage companies to push for better working practices.

We believe remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned with company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

We expect companies to disclose the compensation paid to directors on an individual basis and with a level of detail which will permit shareholders to conduct a fair assessment of company practices.

We support annual votes on compensation as they provide shareholders with a regular communication channel to express their concerns regarding the company's compensation practices.

GSI action included voting in support of resolutions and publicly pre-declaring our votes in line with ShareAction.

Case Study

# Lyondell Basell

LyondellBasell, the world's third-largest chemical company by revenue, specialising in polymers and basic chemicals. With headquarters in the Netherlands and the US, the company operates in twenty countries and employs 19,300 individuals. Serving diverse markets such as construction, packaging, agriculture, and transportation, LyondellBasell plays a significant role in various sectors.

LyondellBasell has increasingly sought to position itself as a sustainability leader in the chemicals sector over the last few years. In 2022, they became one of the first major basic chemical companies to set a comprehensive scope 3 emissions reduction target. Though scope 3 reductions will likely be driven by their refinery closure rather than mitigation within their chemicals segments, this represents a welcome development in a sector in which scope 3 targets are scarce.

Having engaged constructively with our working group in the past, LyondellBasell has made notable progress on key initiatives, including scope 3 target setting, during our engagements.

Commitments:

- Significant commitment to expanding its range of products based on alternative feedstocks
- Committed to deliver 2 million tonnes of recycled and bio-based chemicals to the market by 2030
- Increase use of renewable and low carbon energy primarily through power purchase agreements and collaboration with our utility suppliers
- Help accelerate the scale up and deployment of breakthrough technologies to reduce the carbon footprint of chemical processes to net zero by 2050 through collaboration

**LyondellBasell stated goals**

- Achieve net zero greenhouse gas emissions from our global operations by 2050, includes scope 1 and 2 emissions.
- Reduce absolute scope 1 and 2 greenhouse gas emissions by 42% by 2030 relative to 2020 baseline
- Reduce absolute scope 3 greenhouse gas emissions by 30% by 2030 relative to 2020 baseline
- Procure a minimum of 50% of electricity from renewable sources by 2030

Looking ahead, the focus is on questioning the company's plans for transitioning away from fossil feedstocks.

Considering the progress achieved, the collaborative tone of our engagements, and the company's relative ambition compared to its peers, the Chemical Decarbonisation Coalition does not intend to escalate matters at LyondellBasell during the 2024 proxy season.

## Industry Networks

Over the reporting period, GSI has been involved in industry networks and groups where industry participants work together to review the potential impact of proposed regulations, best practices in voting and engagement, client preferences and policy and regulatory changes. These include: IIGCC, CISI, SRI, Transparency Task Force, Investment Network, and others.

## Institutional Investors Group on Climate Change

In the summer of 2023, we became members of the IIGCC.

The IIGCC provides access to expert insights and resources, including research, data sources, case studies, policy guidance and working groups and networks. This expertise covers areas of focus like banks and nature and biodiversity, in addition to the Climate and Net Zero Engagement Initiatives.

## Working Groups

The IIGCC has over 25 active working groups, on corporate, investor strategies and policy advisory. These are a unique feature of IIGCC, which we appreciate for their collaborative potential and specialised focus.

We have participated in the following four:

* Net zero stewardship toolkit,
* Proxy advisor engagement,
* Net zero sector standards,
* Passive investments

We have requested to join the 'Banks' group.

## Net Zero Voting Group

The Net Zero Investment Group developed a framework and provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050 or sooner.

Our voting policy has since been amended to reflect the objectives and targets of the Net Zero Investment Framework (NZIF) discussion paper on setting investors' voting practices in line with net zero objectives and targets.

It now reads: Consistent with our membership of the International Investor Group on Climate Change (IIGCC), we expect investee companies to provide disclosure on climate-related issues, including on governance, strategy, risk management, and metrics and targets. In particular, we encourage companies to provide reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

**IIGCC Investor working groups**

Highlighted by many of our current members as one of the most significant and valuable aspects of IIGCC membership, member working groups provide the opportunity to cover a broad range of topics and programme areas and are inclusive and engaged communities within our membership.

## Proxy Voting Working Group

As voting is a key to our engagement strategy, this was a logical working group to join first.

Three takeaways from the working groups meeting were:

- Engagement with major proxy advisors (including ISS and Glass Lewis) should focus on custom and specialty policies rather than benchmark policies

- Further engagement with alternative proxy advisors is necessary

- Members to share key climate votes (including routine resolutions) with IIGCC during proxy season for potential post-season analysis

Given that we already have a specialty policy and use an alternative proxy advisor beyond the major two, has significantly reinforced and validated our strategic methodology and underscores its effectiveness.

We will happily share our voting records for post season analysis with this working group. Sharing information for collective good is part of the benefits of collaboration.


Source: IIGCC

## Investor Led Initiatives

We have widened our engagement influence through collaborative organisations such as Climate Action 100+, and NZEI, both investor-led initiatives to influence the world's largest corporate greenhouse gas emitters to cut emissions.

### Climate Action 100+

CA100+ brings together 700 investors representing $68 trillion in assets to encourage 170+ of the highest greenhouse gas emitters to reduce their emissions to net zero by 2050.

We expect companies to provide disclosure on climate-related issues, including on governance, strategy, risk management, and metrics and targets.

CA100+ had paused memberships until recently. We will be a 'contributing investor member' in the A. P. Moeller Maersk's initiative.

Joining Maersk's campaign aligns with our stance on decarbonisation and just transition.

The company has pledged that new projects linked to its decarbonisation endeavours will involve consultation with affected communities and seek their consent. It has also committed to decarbonise in accordance with defined just transition principles, acknowledging the social impacts of its decarbonisation efforts.

Our investment process targets a level of fossil fuel exposure and aggregate level of GHG intensity of half that of the benchmark or lower.

Maintaining a certain exposure and actively engaging with high-emission companies, sends a signal that capital is available for companies that demonstrate a commitment to sustainability. This incentivises companies to improve their environmental performance and transition toward cleaner technologies.

## Transparency Task Force

Bernd Hanke, Co-CIO and Robin Powell, Education Consultant with GSI, have been actively involved as Ambassadors of the Transparency Taskforce.

The Transparency Task Force (TTF) is the collaborative, campaigning community, dedicated to driving up the levels of transparency in the global financial services industry and to rid the financial industry of its short-term profit mindset. Its mission is to help consumers of financial services and products to get a fair deal and in so doing to help rebuild trust and confidence in the financial services sectors.

## Outcome

We believe our involvement in industry initiatives has strengthened in 2023, expanding our stewardship reach and understanding of industry trends and the regulatory landscape. Additionally, it has broadened our network of sustainable experts and professionals, allowing us to learn about emerging best practices, particularly in areas such as climate transition plans. We are proud of the outcomes of collaborative engagements with ShareAction and will continue to embrace opportunities to work collectively.

PRINCIPLE 11

By strategically allocating our resources and leveraging industry collaborations, GSI remains committed to promoting sustainability and responsible investing practices while navigating the practical challenges inherent in direct engagement with companies within our investment portfolios. As our portfolio manager, Andrew Cain, emphasizes, “We believe in driving change where it matters most, and that means making informed decisions about how we allocate our engagement efforts to maximise our impact.”

Andrew Cain, Managing Partner at Global Systematic Investors LLP

SECTION 3

# Engagement

## Principle 11: Escalation

*Signatories, where necessary, escalate stewardship activities to influence issuers.*

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The aim of our stewardship approach is always to encourage positive change and protect and create value for our clients over the long term. Our preference is to engage with companies to maintain or enhance companies' values, rather than resorting to divestment.

We escalate to align with the values and principles of responsible business conduct and sustainable benefits for the economy, the environment, and society.

Our escalation actions are guided by our 'Voting Policy'. Our policy is drafted to recognise different regional jurisdictions for particular voting issues.  We apply our engagement strategy and voting policy consistently across both our funds and all geographies. The escalation process will vary depending on the facts and circumstances of each case.

## Escalation Priorities

In our last FRC report we stated that our goals were threefold. We have made good progress against these objectives:

i. Using other forms of active engagement such as letter writing when voting against management

We have added an option to produce customised letters with our voting process. This is an efficient way for GSI to communicate our rationale for votes cast with the investor relations teams at the companies.

ii. Engaging with industry groups to escalate our concerns

We joined the IIGCC in 2023 expanding our industry reach. Given the significance of voting in our engagement strategy, we joined the Proxy Voting Working Group and Net Zero Voting Group. We were invited to comment on the Net Zero Investment Framework (NZIF) paper on setting investors' voting practices in line with net zero objectives and targets. GSI and USS Pension Fund were one of a few members using bespoke proxy services and not receiving proxy services from one of the major providers.

iii. Revise our voting policy to reflect evolving ESG concerns and targets

Our proxy voting guidelines have been updated to reflect the current global best practices in line with our policies, covering thematic areas of importance including Board effectiveness, fair remuneration and climate targets.

## Escalation Framework

With finite and limited resources, we recognise the need for a more targeted approach and are implemenintg a framework to prioritise our engagement and escalation efforts. This includes the following 7 steps:

| | | | |
|---|---|---|---|
| 01 **Identify** Identify priority engagement targets. | 02 **Prioritise** Determine strategic focus. | 03 **Monitor** Track poorly performing actors. | 04 **Vote** Adjust voting preferences for sensitive resolution areas. |
| 05 **Communicate** Notify voting intentions via pre-declaration statements or letters. | 06 **Influence** Seek opportunities to influence change through collective advocacy | 07 **Divest** Reassess the need action. | |

* Source: Minerva Analytics 2023

## Identify

As explained in detail in **Principle 5**, we prioritise 200 companies and use these for our voting target list.  At the latest review in January 2024, we broadened the criteria to include portfolio holdings also found in CA100+, NZEI, Nature100, and G-SIBs.

Over the reporting period, our engagement efforts have been concentrated on three key themes: board independence, climate decarbonization, and fair remuneration. We have collaborated with ShareAction in the Chemical and GoodWork Coalitions to apply pressure in these areas. Our focus on board independence and diversity is reinforced through voting pressure. Moving forward, we are identifying and directing efforts focused on our target list, aligning our engagement accordingly.

Target voting list further described in **Principle 5**

## Prioritise

Our focus so far has been relatively cross-sectional in nature. In 2024, we are contemplating a more sector-specific strategy, concentrating on certain sectors to promote enhanced sustainable practices within it. Our investment strategy has a natural overweight in financials. Working with the IIGCC Banks Engagement Team is part of this plan.

The Banks team focus on 26 assessed banks and their respective net zero transition plans. Expectations are set and measured based on 10 key areas: bank commitments; targets; exposure and emissions disclosure; emissions performance; decarbonisation strategy; climate solutions; policy engagement (lobbying); climate governance; just transition; and annual reporting and accounting disclosures. This effort complements the Net Zero Investment Framework (NZIF).

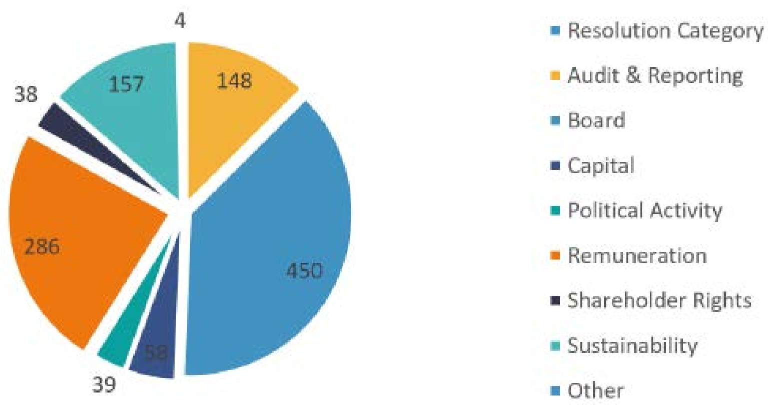
## Monitor

Certain types of portfolio company behaviours are likely to result in escalation, including sustained poor governance practices, inadequate disclosure, unwillingness to engage with shareholders and evidence of contravention of UNGC principles.  We use the detailed reporting, on controversies and company information from Minerva, Sustainalytics, Bloomberg and others to monitor these behaviours, vote accordingly and react when necessary.

## Vote

When there is evidence of poor governance practices at a portfolio company, GSI generally believes that we optimally serve our clients by using stewardship activities such as voting against management to encourage better standards of corporate governance.

Votes against management 2023*
All resolutions

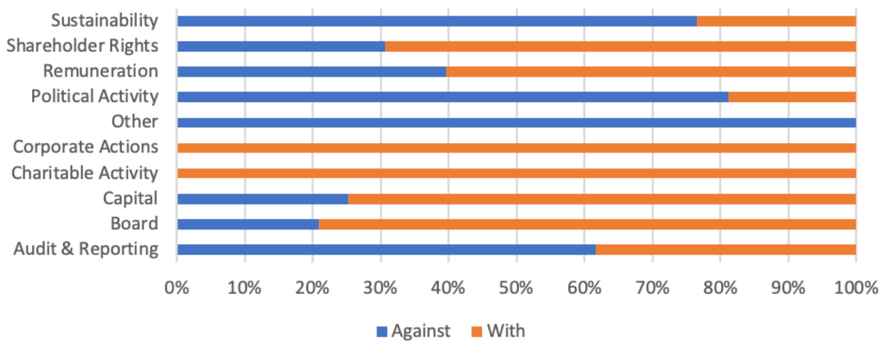



* Source: Minerva Analytics 2023

1 2 3 4 5 6 7 8 9 10 11 12

In 2023 we voted against management at least once at 98.5% of all meetings (in 197 of 200 meetings). As expected, the majority of our votes against management were on governance practices 63%, with 13% on sustainability issues.

Votes against management by resolution category
All Proposals *




## Board Elections and Independence

**69%**
Voted against board composition and committee
36 / 52 proposals

**51%**
Voted against director discharge
52 / 102 proposals

**16%**
Voted against director election
327 / 1984 proposals

**91%**
Voted for shareholder proposed board resolutions
41 / 46 proposals

We advocate for a balanced board composition, comprising both executive and non-executive directors. We propose that a minimum of 50% of the board should consist of demonstrably independent directors.

Our policy is to vote against Directors, where applicable, on a case-by-case basis. Where companies are subject to a controlling shareholder, board independence is particularly important so as to ensure effective oversight and accountability to minority shareholders. Without sufficient independence from management, non-executive directors may be unduly constrained.

At Oracle's AGM on November 15, 2023, we withheld votes for the re-election of seven directors due to perceived independence issues. The nominees either lacked independence as non-executive directors on the Board or on the Audit Committee and where the required percentage of independent directors was not met.

## Fair Remuneration

**40%**
Voted against management on all remuneration proposals
286 / 721 proposals

**70%**
Voted against remuneration (overall)
52 / 102 proposals

**71%**
Voted against total remuneration (individual)
20 / 28 proposals

**86%**
Voted against long-term incentive plans
36 / 42 proposals

**95%**
Voted against remuneration reports
167 / 175 proposals

In 2023 we voted on 721 resolutions relating to remuneration.

Remuneration policies and practices should be crafted to bolster the company's strategy and foster enduring, sustainable success. Executive compensation should also mirror the company's purpose and values, unequivocally tied to the effective execution of the long-term strategy.

* Source: Source GSI and Sustainalytics 2022

We saw the need to modify our investor voting policies to reflect the escalating concerns with over complex executive remuneration arrangements that rely heavily on the use of qualitative performance metrics limiting shareholder ability to assess the alignment of performance and executive pay.

### Case Study: Fair Remuneration

Several Canadian banks (including Toronto Dominion Bank, Bank of Montreal, & Royal Bank of Canada) have had shareholder resolutions requesting that the banks add clarity to their country-by-country reporting. This is to enable shareholders to get a better understanding of the firms' overall pay ratios, rather than just for those employees based in Canada. The concern is that there is some scope for the banks to be less transparent about compensation paid in countries with fewer disclosure rules.

Management always vote Against this proposal. We have consistently voted in For. This issue is not covered by the guidelines, so it falls under our case-by-case review.

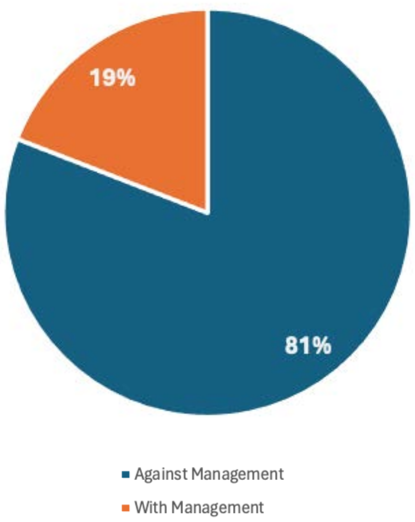
### Shareholder Resolutions

We can and do vote on shareholder proposals as a form of escalation, considering 'case-by-case' for investment decisions or non-routine proposals.

These resolutions offer shareholders a platform to express their concerns, impact corporate decision-making, and ensure management accountability. By aligning our votes with other shareholders, we can express our dissent and amplify our influence in driving change.

According to the ShareAction Voting Matters Report UK, asset managers' average support for resolutions has hovered at around 64%. This trend varies globally with European managers voting in favour of 88% and of all resolutions but US managers only voting in favour of 25% of all shareholder resolutions.

Shareholder Resolution Votes 2023*




Source: ShareAction Voting Matters Report 2023

### Case Study: BP

At its 2022 AGM, BP's climate transition plan received 88.5% support in the company's first 'Say on Climate' vote. However, in February 2023, the company lowered its medium-term emissions reduction goals for oil & gas.

The company has reduced its ambition to cut emissions from fuels which are sold to customers from 35%-40% to 20%-30% by 2030. This reduced objective is not in line with the Paris Agreement.

BP failed to hold a 'Say on Climate' vote on the altered plan at its 2023 AGM.

In response, civil society organisation 'Follow This' tabled a resolution calling for BP to align its Scope 3 emission targets with the Paris Agreement.

This resolution received 18.79% support.

We also voted against Resolution 1, to adopt BP's reports and accounts, as they failed to include references to the UN Sustainable Development Goals.

### Shadow Spin

According to Minerva, in the US, there was an increase in anti-ESG proposals (49 in 2023 compared to 24 in 2022). However, none of the anti-ESG proposals received over 10% of votes in favour, suggesting the proposals are not valued by shareholders. We will vote against a proposal if we believe it is a shadow proposal with a political spin.

For example, at the Exxon AGM on 31 May 2023, we voted against Resolution 5, as the proposer is a known anti-ESG proponent and argues against decarbonisation.

## Communicate

We can, when appropriate, signal our voting intentions and positions to company management by pre-declaring our vote or directly communicating with investor relations through formal letters. This informs companies about our stance and why certain issues are significant to us as shareholders.

Additionally we endorse being included in communication strategies, including press releases, requested by our collaborative groups, such as ShareAction when supporting a resolution within an Investor Working Group.

## Reassesment

Certain behaviours are likely to result in escalation, including sustained poor governance practices, inadequate disclosure, unwillingness to engage with shareholders, and evidence of contravention to the United Nations Global Compact (UNGC).

The escalation strategy used will vary depending on the facts and circumstances of each case. We apply our strategy consistently across both our funds.

## Influence

We continue to participate in collaborative engagement (e.g. ShareAction and the IIGCC) to influence issuers. This is explained in detail in **Principle 10**.

Individually, we may lack the resources in terms of assets, to exert significant influence. However, by working collectively, we can leverage shared expertise, research capabilities, and resources to effectively manage engagement campaigns.

## Escalation

We escalate in line with policy and consideration of our asset size and company resources.

We will support filing shareholder resolutions with others, use voting power to replace unresponsive directors, and speaking out publicly when appropriate. We are less likely to pursue engagement campaigns, or escalate engagement, in companies held outside our voting target list. We may do so on a case-by-case basis.

Engagement and Voting Refer to **Principle 9** and **Principle 12.**

## Divestment

The option to underweight, exclude, or divest from a company is open to our Investment Committee. We escalate to align with values and principles of responsible business conduct and sustainable benefits for the economy, the environment, and society.   Materiality issues, product involvement and controversies data from Sustainalytics is actively monitored.

The Investment Committee has the option to divest from a security when we have significant corporate governance concerns.

Source: ShareAction Voting Matters Report 2023

Divestment case study:
**A Wells Fargo & Company**
**Sector:** Banking US
**Principle Violation:** Anti-Corruption.

**Reason:** Wells Fargo has faced numerous scandals over the years, most notably the fake accounts scandal where employees created millions of unauthorised bank and credit card accounts. This violated ethical standards and demonstrated significant lapses in corporate governance and accountability.

## Product Involvement

We will divest from any issuer that has product involvement in areas defined by the Sustainable Development Goals (SDGs) at a level of 10% of company revenues or more. Over 2023, the number of companies excluded on that basis fell from 104 to 77.

The list of companies excluded or divested from changes as revenues shift. For example, Exxon's status changed over 2023. Exxon's revenue share from oil sands fell below our threshold level of 10%.

## Violations of the United Nations Global Compact (UNGC)

Companies are excluded due to non-compliance with the United Nations Global Compact (UNGC) principles, typically related to breaches of human rights, labour standards, environmental and anti-corruption measures.

During 2023 the number of excluded companies due to UNGC violations fell from 11 to 4, as several either dropped out of our investment universe or became compliant (some remain on the Sustainalytics watchlist).

**We continue to exclude the following companies:**

**Lockheed Martin Corporation:**
**Principle Violation:** Environmental Protection and Human Rights.

**Reason:** As a major defence contractor and arms manufacturer, Lockheed Martin is scrutinised for its involvement in the military industry, which can be linked to environmental damage and conflicts impacting human rights.

**RTX Corporation (formerly Raytheon Technologies):**
**Principle Violation:** Environmental Protection and Human Rights.

**Reason:** Similar to Lockheed Martin, RTX, being a significant player in the defence sector, faces concerns regarding its impact on warzones, potential contributions to human rights abuses, and environmental repercussions of its products and operations.

**Tokyo Electric Power Company Holdings, Incorporated (TEPCO):**
**Principle Violation:** Environmental Protection.

**Reason:** TEPCO was primarily responsible for the management of the Fukushima Daiichi Nuclear Power Plant during the 2011 nuclear disaster. The incident raised significant environmental concerns due to radiation leaks, which had a profound and lasting impact on the surrounding environment.

Divestment is further described in **Principle 5**.

Source: ShareAction Voting Matters Report 2023

## Outcome

As stewards of our clients' assets, we are committed to fostering long-term value creation and sustainable business practices. By actively engaging with companies, escalating when necessary and advocating for responsible governance, we aim to safeguard the interests of our clients. We have robust policies and protocols and our activities throughout the reporting period have been in line with these.

During 2023, GSI has taken careful and deliberate steps to refine and improve its engagement and escalation efforts. Looking ahead, we are committed to further improvements to shape sustainability outcomes through effective stewardship activities.

PRINCIPLE 12

Source: ShareAction Voting Matters Report 2023

SECTION 4

# Exercising Rights and Responsibilities

## Principle 12: Exercising Rights and Responsibilities

*Signatories actively exercise their rights and responsibilities.*

GSI considers our duty to exercise our rights and responsibilities as custodians of our clients' investments as crucial to fulfilling our fiduciary role to maximise value over the long term.

We currently subscribe to research and proxy voting execution services from Minerva.

Our voting policy has approved guidelines which determine whether a specific agenda item should be voted "For", or "Against", or should be considered on a case-by-case basis. The same process is currently applied across all our portfolios.

This policy serves not only as the structure for our good governance but also to communicate our dedication to responsible investing and proxy voting. Our voting outcomes are a direct result of the implementation of our policy.

We have little or none of the conflicts of interest experienced by other larger asset managers in applying a voting policy and we are not influenced by a US parent.

We combine research from Minerva with data, ratings, and research from Sustainalytics, Solactive and other sources, which contribute to our understanding of the issues surrounding a company's proposals.

Minerva provides the platform to automate our proxy voting. Our investment team is responsible for providing the vote recommendation for a given proposal. If a resolution, not covered by our guidelines, requires further examination the investment team is consulted. A thorough analysis of a resolution is made on a case-by-case basis to determine the appropriate vote to cast.

Proxy voting policy changes are further described in **Principle 8.**

## Diversified number of holding

GSI's systematic investment approach involves maintaining diversified portfolios comprising stocks traded principally on major exchanges in developed markets. The allocation of stock positions is carefully weighted to ensure diversification levels that either match or surpass those of a market-weighted index, both at the individual stock and sector levels. As a result, our strategies hold a broad array of stocks.

The number of stocks in each strategy at the end of December 2023 was:

**Global Sustainable Value Fund - 1030**

**Global Sustainable Focused Value Fund - 630**

## Target voting list

Given the broad number of holdings and additional costs associated with voting proxies, we have determined that it is not in the best economic interests of our clients to vote on all proxies.

We use a 'Target Voting List' that captures approximately 200 names.

Our selection criteria identify specific subsets from the funds' holdings that we prioritise for voting. Our methodology involves applying a filter to identify stocks where our holdings are substantial, or where there is a noted deficiency in ESG credentials. The list covers 68% of the market value of the Global Sustainable Value Fund and 70% of the Global Sustainable Focused Value Fund.

At the annual review in February 2024, we expanded our selection criteria to encompass any holdings in our universe that are also identified within CA100+, NZEI, Nature 100, and G-SIBs (Global Systemically Important Banks) focus lists.

The voting policy is further described in **Principle 5.**

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## Voting statistics

In the calendar year 2023, we voted at 200 meetings, in 16 markets, and executed our voting intentions on 3,736 resolutions.

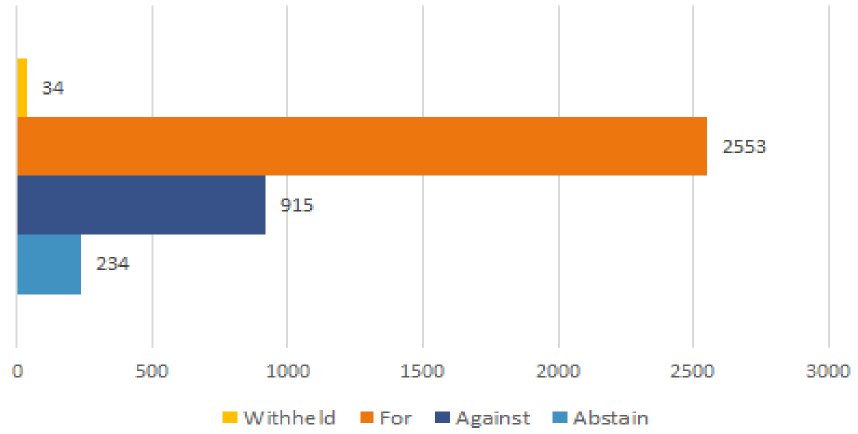
Across the 200 company meetings, we voted against management at least once at 197 of those meetings. Of all proposals, 3380 were management proposals, where we voted against, withheld or abstained on 33% (1115) of votes cast.

Approximately 10% of all resolutions voted were shareholder proposals (356). We value the right of shareholders to submit proposals to company general meetings. We voted in favour of 81% of these resolutions.

### 2023 Key voting statistics*

| | | | | |
|---|---|---|---|---|
| 200<br>Meetings voted | 16<br>Markets voted | 3,736<br>Proposals voted | 9.8%<br>Shareholder proposals | 81%<br>Voted for shareholder proposals |
| 68%<br>Voted for the resolution | 31.6%<br>Voted against management | 98.5%<br>Meetings with at least one vote against management | 77%<br>Voted against management on sustainability | 20%<br>Voted against director re-election |

How we voted in 2023*




## Votes by resolution*

| RESOLUTION CATERGORY | ABSTAIN | AGAINST | FOR | WITHHOLD | TOTAL |
|---|---|---|---|---|---|
| Audit & Reporting | | 143 | 92 | 5 | 240 |
| Board | | 384 | 1,738 | 29 | 2,151 |
| Capital | | 54 | 175 | 0 | 229 |
| Charitable Activity | | 1 | 0 | 0 | 1 |
| Corporate Actions | | 1 | 12 | 0 | 13 |
| Other | | 2 | 0 | 0 | 2 |
| Political Activity | | 8 | 40 | 0 | 48 |
| Remuneration | 234 | 250 | 236 | 0 | 720 |
| Shareholder Rights | | 19 | 105 | 0 | 124 |
| Sustainability | | 52 | 153 | 0 | 205 |
| #N/A | | 1 | 2 | 0 | 3 |
| **Grand Total** | **234** | **915** | **2,553** | **34** | **3,736** |

* Source: Minerva Analytics 2023

## Voting around the globe

GSI only manages funds invested in global developed market equities.

We are committed to voting at all meetings held by companies on our target list (currently 200) including shareholder proposals irrespective of the region. Our voting policy recognises the different jurisdictions and adapts accordingly.

In 2023 we voted proxies in 16 markets. Our assets are invested across regions based on market weights and therefore a large percentage of the funds' assets are in North America. Two out of every 3 proposals voted were for resolutions for North American companies.

| REGION | RESOLUTIONS VOTED PER REGION | % OF ALL RESOLUTIONS | RESOLUTIONS VOTED AGAINST MANAGEMENT | % OF VOTES |
|---|---|---|---|---|
| North America | 2,468 | 66.1% | 581 | 23.5% |
| UK | 239 | 6.4% | 30 | 12.6% |
| Europe ex UK | 680 | 18.2% | 221 | 32.5% |
| Japan | 243 | 6.5% | 63 | 25.9% |
| Asia Pacific Ex Japan | 106 | 2.8% | 20 | 18.9% |

Source: Minerva Analytics 2023

## Australia - Case Study Westpac

On 14 December 2023, we voted proxies for Westpac Banking Corp, an Australian-listed bank.Amongst the resolutions was Resolution 5: To approve the climate change position statement and action plan.

The resolution seeks shareholder approval of the company's 'Say on Climate', climate transition action plan.

In our view, the company has not demonstrated that its emissions reduction targets are science-based (through certification from the Science Based Target Initiative).

There are several pledges in the company's investment commitment that do not match the Paris Agreement and net-zero emissions by 2050 scenario: for example, reducing upstream oil and gas project finance emissions by 23% by 2030 falls short of the emission reductions in the International Energy Agency's Net Zero by 2050 scenario (NZE).

We voted against management. However, the resolution was passed with very little opposition, with only 9.37% dissent.

- The proposal states that the bank is not fully aligning its actions with its promises related to addressing climate change
- Westpac's continued financing of projects that involve expanding the use of fossil fuels despite committing to various climate goals
- Westpac is not being transparent about how they assess the environmental impacts of the projects in which they finance
- The proposal highlighted that by not supporting the goals of the Paris Agreement, could in turn leave them open to legal and regulatory risks
- The Shareholder Resolution 6b, requesting transition plan assessments, had better support with 23.8% dissent. In Australia these resolutions require at least 75% of the votes to be passed.

## Shareholder resolutions per region

Shareholder proposals are a more prominent feature of the US market as compared with Europe and the UK. Of all shareholder resolutions voted by GSI, 92% were in North America, predominantly the US.

Of the 356 shareholder resolutions we voted against 68, including 61 resolutions in the US, and 7 others in Canada (2), Japan, (2), Denmark (1), Australia, (1) and the UK (1).

| SHAREHOLDER RESOLUTIONS PER REGION | % OF REGION VOTE | % OF TOTAL VOTE | # IN REGION |
|---|---|---|---|
| Americas | 13.3% | 8.8% | 329 |
| UK | 2.1% | 0.13% | 5 |
| Europe (ex UK) | 1.2% | 0.2% | 8 |
| Japan | 3.7% | 0.2% | 9 |
| Asia Pacific Ex Japan | 4.7% | 0.13% | 5 |
| Total | | | 356 |

| SHAREHOLDER RESOLUTIONS PER REGION | AGAINST SHAREHOLDER RESOLUTION | % OF TOTAL NEGATIVE VOTE |
|---|---|---|
| Americas | 63 | 92.6% |
| UK | 1 | 1.5% |
| Europe (ex UK) | 1 | 1.5% |
| Japan | 2 | 3% |
| Asia Pacific Ex Japan | 1 | 1.5% |
| Total | 68 | |

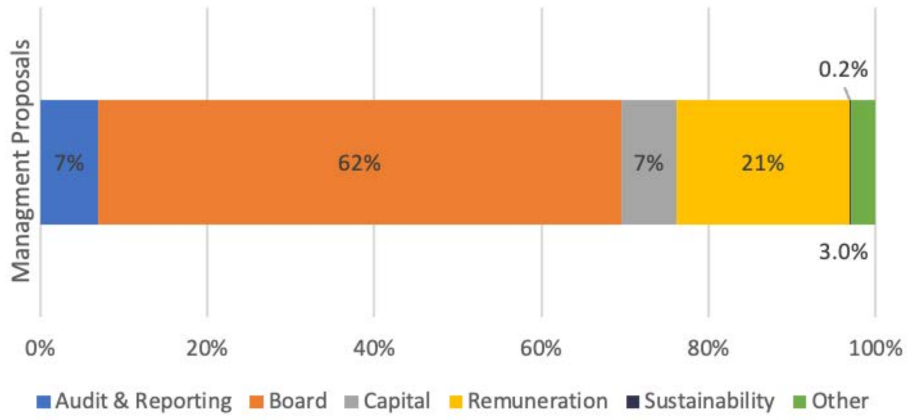
## Management resolutions

Of all the proposals voted, 3380 or 90% were management proposals. Of these, we voted with management two-thirds of the time (67%) or 2265 proposals.

The majority of these were board related 2106 (62%), as we would expect. Of those board-related proposals, 94% (1984) were concerning director re-election.

We believe that increasing diversity and increasing the range of perspectives on the board can enhance board effectiveness and decision-making. Consequently, we expect companies to adopt and disclose a policy on board diversity. GSI voted against 18% of all board election resolutions.

Management proposals by Category in 2023 *
(90% of voted proposals)




* Source: Minerva Analytics 2023

### 'Say on Climate'

Only 5 resolutions that management put forward were on sustainability issues.

Iberdrola (Spanish utility) sought approval for their 2022 Sustainability Report. The report was approved by KPMG Auditores SL who drew no concerns from the disclosure. We voted with management.

The other four companies, Canadian National Railway Company, Shell PLC, TotalEnergies SE and Westpac, were seeking approvals on climate action plans or climate reports. We voted against all four of these proposals.

None of these companies has explicitly committed to aligning capital expenditures with the Paris Agreement Goals or demonstrated that its emissions reduction targets are science-based.

The other shareholders of Shell showed clear dissatisfaction with their energy transition progress with dissent at more than 23%. However, the Canadian National Railways received 96% support for their action plan despite no alignment with the Paris Agreement or science-based targets.

### Remuneration

Remuneration matters accounted for 19% (693 votes) of all resolutions over the year. We supported 30% (210 votes) of those remuneration votes.

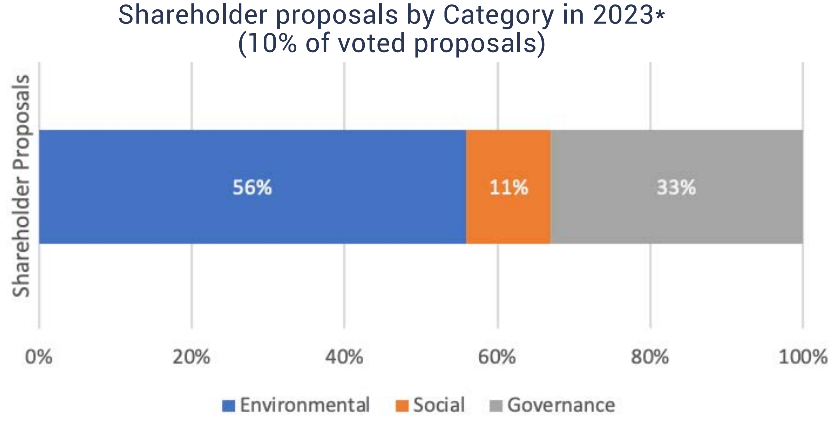
Of these, 175 resolutions were to approve the remuneration reports, wherein we cast our vote against management in over 95% of cases - with 167 votes against the resolution.

We abstained on 234 'Say on Pay' votes as explained later in the report.

This is consistent with our commitment to holding companies accountable. We believe remuneration policies should be transparent and aligned with the company's purpose and linked to the successful delivery of the company's long-term strategy.

## Shareholder resolutions by proposal

Shareholder resolutions are also typically aimed at holding the company accountable for its actions and encouraging it to adopt more sustainable and responsible practices.




Not surprisingly, of the 356 shareholder resolutions (10% of all proposals), the majority were related to environmental or governance concerns.
We voted in favour of 288 resolutions (81%). When we vote against Shareholder resolutions, it is often because the ask is redundant or repetitive or puts too much burden on the company.

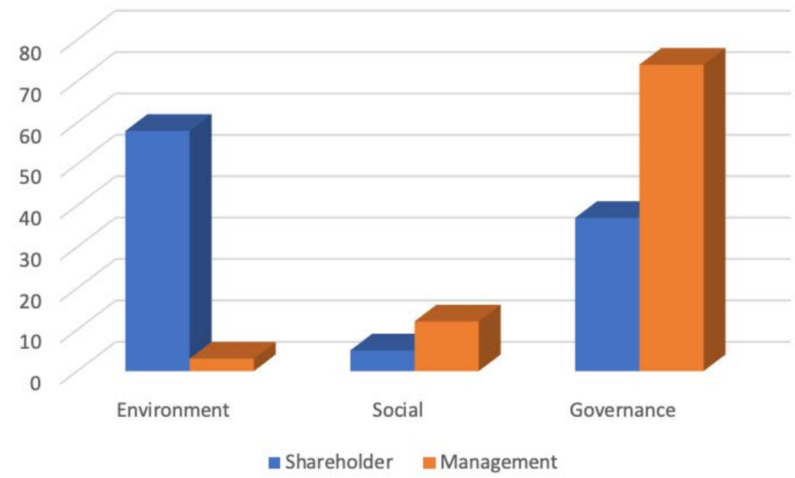
* Source: Minerva Analytics 2023

Our level of support for shareholder proposals is considered quite 'high' compared to our industry peers (64% UK average),

Overall support for shareholder resolutions hit a new low in 2023, falling from its peak in 2021. The increased rhetoric and legislation around ESG are considered to be a cause of less support for pro-ESG proposals due to investors being more cautious with their votes.

Our support has remained around 80%. We follow a bespoke framework for voting on shareholder resolutions. We are not restricted by the policies of large proxy firms.

Resolutions by ESG categories proposed by Management and Shareholders 2023




Source: Minerva Analytics 2023

Management and shareholder resolutions often differ in focus because they represent different perspectives and priorities. While management resolutions are focused on maximizing profits and financial value for shareholders, shareholder resolutions reflect a growing recognition that companies have a broader social and environmental responsibility that must be considered in business decision-making.

## Vote for shareholder proposals

**Shareholder resolutions votes per Category 2023**

GSI's guidelines for our voting policy were updated in 2023 ( and again in February 2024).

The updates improved codifying of the voting recommendations for several areas, including, shareholder proposals filed on climate lobbying, how a company's political activity aligns with its expressed corporate values, racial equity audits, climate accounting, financing of fossil fuels, reporting on systemic social and/or environmental issues, and requests for a company to change its corporate form.

More proposals are being voted on each year and new types of proposals are being filed, and as a result, it was considered important to update and clarify the approach to voting on newly emerging shareholder proposal focus areas.

How we voted for shareholder proposals refer to **Principle 11.**

* Source: Orrick, Herrington & Sutcliffe LLP on 7/25/2022

### Shareholder resolutions vote per sustainability category 2023*

| SHAREHOLDER RESOLUTION CATEGORY | FOR | AGAINST | TOTAL |
|---|---|---|---|
| **Sustainability** | **48** | **152** | **200** |
| Animal Welfare | 0 | 5 | 5 |
| Environmental Practices | 12 | 62 | 74 |
| Ethical Business Practices | 9 | 26 | 35 |
| Human Rights & Workforce | 24 | 54 | 78 |
| Other ESG | 3 | 4 | 7 |
| Sustainability Reporting | 0 | 1 | 1 |

*Source: Minerva Analytics 2023

### Vote against shareholder proposals

A vote against a shareholder proposal may be cast if the proposal asks for a report to be produced on this issue and the company already provides timely and comprehensive disclosure on the issue or it the resolution is misaligned with good governance.

During 2023, GSI opposed 19% of shareholder resolutions, marking a slight increase from 16% in 2022. Of all votes against shareholder resolutions, 70% concerned Sustainability issues. Proposals related to Human Rights and the Workforce accounted for 35%.

For example, on October 9, 2023, GSI supported management's position on shareholder proposals at Procter and Gamble. Resolution 5, which called for a civil rights audit to assess reverse discrimination, and Resolution 6, which requested an annual report on operations in China, were deemed "shadow proposals" with a political agenda.

The number of 'anti-ESG' proposals has increased. We review these on a case-by-case basis however they are often of a political spin.

An increasing number of votes against shareholder proposals are attributed to our assessment of them as either "prescriptive" or "redundant".

According to Harvard Law, 26 out of 67 Environment & Social shareholder resolutions filed at S&P 100 companies in the 2023 proxy year were described as "prescriptive" or "unduly constraining on the company or covered issues already being addressed by management.

## Abstaining

There are cases where management recommends shareholders abstain. In this situation, if the resolution is in line with the policy, then we will follow the management recommendation and abstain. In 2023 we abstained from 234 resolutions. All of these were 'Say on Pay' votes.

Our policy is to support annual votes on executive compensation as they provide shareholders with a regular communication channel to express their concerns regarding the company's executive compensation practices.

## Withholding

GSI's voting policy outlines clear reasons for withholding our vote, predominantly related to board composition, audit practices, and reporting proposals.

When we are opposed to a board candidate, we may withhold our voting rights and may withhold votes if the election is uncontested and plurality voting isn't applied. If the reappointment of a statutory auditor has a service record longer than our limits, we may withhold.

Source Harvard Governance Forum
https://corpgov.law.harvard.edu/2023/10/16/2024-u-s-proxy-season-proxy-voting-governance-and-es-matters/

In 2023 we withheld our vote on 34 resolutions (less than 1% of votes) across 11 companies. The re-appointment of auditors for Canadian companies accounted for 5 of these withheld votes. The majority (29) of withheld votes were with regard to re-electing existing directors. These companies included **Barrick Gold, Berkshire Hathaway Inc., Comcast Corp, Newmont, Nucar, Meta Platforms Inc**., and **Oracle Corp**.

One reason to withhold our votes is to express dissatisfaction more subtly. At Berkshire Hathaway for example, we withheld votes for 9 out of the 15 board members up for re-election. Seven votes were withheld due to a perceived lack of independence.

We agree with the National Legal and Policy Centre (NLPC) and the view from proxy adviser Glass Lewis that said, "An independent chairman…is better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as Chairman".

We voted in favour of Shareholder Resolution 8 to request separating the roles of Chairperson and CEO. It is encouraging that this resolution received 11.5% support, given that directors and executives of Berkshire Hathaway own 43% of the company, combined with Buffett's cult-like status among its shareholders.

## How we vote

GSI aims to vote on all proxy proposals, amendments, and resolutions at general meetings of companies on our 'Target List'. Our preference is to vote 'For' or 'Against' for a resolution. Should we have concerns, or where there is a lack of information to determine the best direction of our vote, we may occasionally decide to 'Abstain' or "Withhold" our vote.

**Case study - Meta Platforms**

On 31 May 2023, GSI voted on the proxies for Meta Platforms, a US technology company.

Using the Meta AGM as an example of how we apply our voting options the following votes were cast:

**Resolution 1.01**: To re-elect as a director, Peggy Alford – **WITHHOLD**

The nominee is a non-executive and a non-independent member of the Audit and Remuneration Committees where the quote of independent members has not been reached (12.67% dissent).

**Resolution 2**: To ratify the appointment of Ernst & Young LLP as auditors – **AGAINST**

The auditor has been in place since 2007 and no new tender is planned.

**Resolution 4**: To request that the Board report to shareholders on their policy with regards to requests to remove or take down content from the platforms - **Shareholder resolution – FOR**

It was proposed to remove a provision that currently provides for unequal votes per share. GSI expects boards to review such share structures regularly and adopt a reasonable sunset provision to phase them out.

This proposal gained similar support as in previous years (29.08%).

**Resolution 5**: To request the Board to report to shareholders on the human rights impact of targeted advertising – **Shareholder resolution – AGAINST**

The proposal is redundant as the board has committed to addressing the content.

**Resolution 13**: Request the Board to commission a review of the Audit and Risk Oversight Committee – **Case by Case – FOR**

Our research shows there is rightful cause for concern due to a lack of robust risk oversight. This is the second year raised and we have supported this both times. 2022 vote accrued 10.44% and in 2023 support fell to 7.41%.

## Voting Guidelines

GSI aims to vote on all proxy proposals, amendments, and resolutions at general meetings.

### Policy on Clients Directing Voting

We do not in principle allow our funds' unitholders to overrule our policy nor do unitholders have an opportunity to vote directly. GSI currently does not delegate authority for voting to any other person or entity but retains complete authority for voting all proxies on behalf of the funds.

### Policy on Stock Lending

GSI does not lend stock.

### Disclosing our Votes

We are committed to being transparent with our clients and companies about our investment stewardship and voting activities.

We have only just completed our first calendar year of actively voting. Full records of our voting since 2022 are on our website.

The GSI website is in the process of being updated to include an improved Sustainability and Stewardship section. All policies will be clearly available including this report.

Information regarding our rationale for proxy voting decisions in our portfolios are made available upon request.

Other opportunities to strengthen our transparency are currently under review.

## Outcome

In 2023, we clearly demonstrated the robustness of our voting policies in upholding our responsibilities to our clients of exercising our rights as owners of capital in a responsible manner. Our actions were driven by the new definition of 'responsible investing', where we challenge the companies we own to prioritise impacts on people and the planet alongside financial risk and return.

Any engagement efforts are aligned with corresponding voting actions.

We continued to vote in favour of shareholder resolutions when corporations failed to make significant progress on priority issues.

We hold companies accountable if they set goals and demonstrate limited or no progress towards them, as was the case with BP.

We demonstrated the seriousness of our concerns on the lack of action by voting against directors who lead board committees in critical areas such as sustainability, human resources, governance, and compensation, where they showed reluctance towards meaningful progress.

Moving forward, we remain committed to refining and improving our policies to further enhance our responsible investing approach.

APPENDIX

## Appendix:

Please follow these links for the relevant documents referenced in this proposal:

GSI Voting Activity records per company for H1 2022  (Jan -June 2023)

GSI Voting Activity records per company for H2 2022 (June – December 2023)

GSI Conflicts of Interest Policy

GSI ESG Voting Guidelines

GSI Proxy Voting Policy

GSI Shareholder Engagement Policy

GSI Responsible Investment Policy

GSI Investment Managers Full Year Report GSV 2023

ShareAction 2023 Impact Report

More information can be found on our website www.gsillp.com

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