Systematic Factor Investing. Sustainably.

Screening and ESG integration overview

July 2024

Integrating sustainable investment practices

All GSI's funds systematically integrate material environmental, social, and governance risks into investment decisions. We also seek to use stewardship activities to protect and enhance shareholder value across all our equity strategies.

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

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.

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 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 Compact (UNGC) and avoid investments in controversial sectors like cluster bombs.

Both the SDGs and UNGC set global standards for sustainability and corporate responsibility. By screening investments against these frameworks, our portfolios align with broader global efforts to tackle environmental, social, and governance challenges.

Screening helps identify and mitigate risks related to environmental damage, social injustice, and unethical governance practices. Investments that conflict with SDGs or violate UNGC principles may pose higher financial risks due to regulatory penalties, reputational damage, or operational disruptions.

By integrating screenings for SDGs and UNGC compliance into our investment process, we provide investors with the assurance that their investments are contributing to meaningful change while still aiming for competitive financial returns.

Sustainable Development Goals

We exclude from the portfolio companies that fail to comply with the United Nations Global Compact principles for business or derive a significant part of their revenues from activities that are not aligned with the United Nations Sustainable Development Goals. These include, but are not limited to, product involvement in adult entertainment, controversial weapons, gambling, palm oil, pesticides, and tobacco.

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 reduction from 102 in 2022.

The list of companies excluded or divested from changes as revenues shift. Exxon's status recently changed because its revenue share from oil sands fell below our threshold level of 10%.

GSI applies a set of product involvement exclusions to better align the fund with the Sustainable Development Goals (SDGs).

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Animal Testing:

We do not screen for Animal Testing. Revenue exposure data is not available so any exclusion would need to be binary – “yes” or “no” irrespective of % of level of revenue exposed to animal testing. The definition is complicated, exclusions include dogs who are used for dog food tasting etc.

Product Area	Product Involvement	GSI Policy	No. of Stocks in Benchmark	% Weight in Benchmark	No. of Stocks in Portfolio	% Weight in Portfolio
Business Practices	Fur and Leather	Exclude	0	0.00	0	0.00
	Gambling	Exclude	12	0.29	0	0.00
	Predatory Lending	Exclude	0	0.00	0	0.00
	Whale Meat	Exclude	0	0.00	0	0.00
Defense and Military	Controversial Weapons	Exclude	0	0.00	0	0.00
	Military Contracts	Exclude	22	1.58	0	0.00
	Riot Control	Exclude	0	0.00	0	0.00
	Small Arms	Exclude	0	0.00	0	0.00
Energy	Arctic Energy	Exclude	0	0.00	0	0.00
	Oil Sands	Exclude	4	0.25	0	0.00
	Shale Energy	Exclude	0	0.00	0	0.00
	Thermal Coal	Exclude	24	0.79	0	0.00
Environment	GM Crops	Exclude	2	0.12	0	0.00
	Palm Oil	Exclude	2	0.02	0	0.00
	Pesticides	Exclude	4	0.18	0	0.00
Health & Wellbeing	Adult Entertainment	Exclude	0	0.00	0	0.00
	Cannabis	Exclude	0	0.00	0	0.00
	Tobacco	Exclude	7	0.64	0	0.00
Total Exclusions	.	.	77	3.87	0	0.00
UN Global Compact	UN Global Compact Violators	Exclude	4	0.71	0	0.00

Source: GSI, StyleAnalytics, Sustainalytics

Exclusion examples:

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, and BAE Systems, an industrial company, both headquartered in the UK, are excluded because of their military contracts. Duke Energy, a utility company in the US, is excluded due to its reliance on thermal coal for electricity generation. Imperial Brands and BAT (British American Tobacco), consumer discretionary companies in the UK, are excluded due to their involvement in tobacco products.

In June 2024, we excluded a further three companies from our portfolios for Product Involvement breaches, these include the following Orica Limited (Thermal Coal, Australia), Eastman Chemical Co. (Tobacco, US), Daikin Industries Ltd (Controversial Weapons, Japan).

In June 2024, we excluded a further three companies from our portfolios for Product Involvement Breaches, these include the following:

- Orica Limited (Thermal Coal)
- Eastman Chemical Co (Tobacco)
- Daikin Industries (Controversial Weapons)

United Nations Global Compact

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. Exclusions typically relate to breaches of human rights, labour standards, environment protection and anti-corruption measures. Sustainalytics monitors compliance with these principles for over 20,000 issuers globally, identifying companies that are non-compliant and actively updating their 'watch list'.

Exclusion examples:

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, or the fact that previously excluded companies are no longer in our eligible universe for other reasons (e.g. company size), rather than a change in GSI policy.

We continue to exclude Wells Fargo, a prominent US bank. Sustainalytics assess the bank to be non-compliant with Principle 10, which addresses combating corruption. Wells Fargo has faced numerous scandals over the years, most notably the fake accounts scandal where employees created millions of unauthorized bank and credit card accounts. This violated ethical standards and demonstrated significant lapses in corporate governance and accountability. Sustainalytics assessed Wells Fargo's failure to work against corruption and uphold this principle, specifically in addressing extortion and bribery.

We also 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 scrutinized for its involvement in the military industry, which can be linked to environmental damage and conflicts impacting human rights.

GSI expects companies to operate within the norms and standards set by the UN Global Compact and therefore also excludes companies that violate these principles.

We exclude companies that violate ethical standards and demonstrate significant lapses in corporate governance and accountability.

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 war zones, 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.

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.

Step 3: Carbon conscious lens

We recognize that modern society has a responsibility to balance the needs of today's population against the consequences for future generations and the environment. To this end, we believe that it is neither feasible nor desirable to exclude all companies involved in the production and use of fossil fuels and their derivatives. 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.

Fossil Fuel exposure

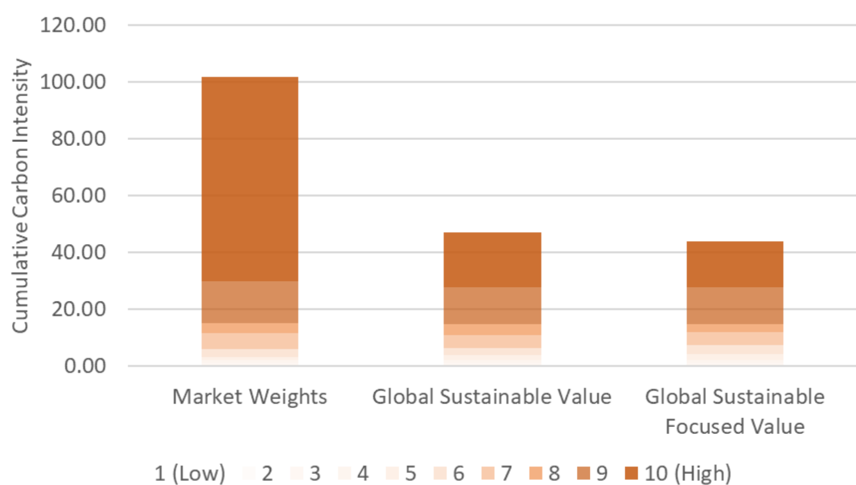
We target a reduction in exposure to companies with significant exposure to fossil fuels of at least 50% compared to the benchmark, (the Solactive GBS Developed Markets Large & Mid Cap Index). Companies are generally considered to be exposed to fossil fuels if they are involved in Oil & Gas Production, Oil & Gas Power Generation, Oil and Gas Products and Services, Thermal Coal Extraction or Thermal Coal Power Generation, at a level of 10% of their revenues or more.

Carbon Intensity

We also target a reduction in the portfolio weighted-average GHG intensity of at least 50% compared to the benchmark. 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.

Exclusion examples:

Examples of companies excluded due to extremely high carbon intensity are NextEra – (US) and Power Assets Holdings (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 CO_2 per Net Sales by 21 percent in 2022 and aimed to reduce it by a further 10 percent in 2023.



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

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.

We significantly reduce our overall exposure to fossil fuels and greenhouse gas emissions.

We invest higher weight in companies that have a better record on managing their environmental responsibilities and lower (or zero) investment in those firms with a poor record of managing their environmental responsibilities.

ESG Metrics

The table below shows portfolio-level statistics for each fund:

	Wtd Avg ESG Risk Rating	Wtd Avg Carbon Intensity	Fossil Fuel Exposure
GSI Global Sustainable Value Fund	17.8	4.5	3.4%
GSI Global Sustainable Focused Value Fund	18.6	43.8	3.4%

	Portfolio Environmental Risk Score	Portfolio Social Risk Score	Portfolio Governance Risk Score
GSI Global Sustainable Value Fund	3.4	8.3	7.0
GSI Global Sustainable Focused Value Fund	3.8	8.7	7.0

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

- **Weighted Average ESG Risk Rating -** the weighted average ESG risk rating is based on the weights of each portfolio or index (a lower risk rating is better).

- **Weighted Average Carbon Intensity -** the weighted average carbon intensity based on the weights of each portfolio or index. Carbon intensity per company is defined as Scope I and Scope 2 carbon emissions divided by annual revenues. This is the standard as defined by the Task Force on Climate-related Financial Disclosures (TCFD).

- **Fossil Fuel Exposure -** companies are generally classified as having fossil fuel exposure if they are in the Energy sector; in the Utilities sector (except water utilities or companies involved in renewable power generation); or companies involved in thermal coal (at a level of greater than 10% of annual revenues).

- **Portfolio Environmental Risk Score -** the weighted average Environmental Risk Score as determined by Sustainalytics (a lower risk rating is better).

- **Portfolio Social Risk Score -** the weighted average Social Risk Score as determined by Sustainalytics (a lower risk rating is better).

- **Portfolio Governance Risk Score -** the weighted average Governance Risk Score as determined by Sustainalytics (a lower risk rating is better).

Stewardship

GSI's investment stewardship efforts seek to improve governance and corporate practices in a way that we believe may protect and enhance shareholder value.

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.'

GSI advances our clients' interests by actively voting and leveraging influence.

As systematic investors there are certain ways to add value through stewardship and exercise our rights and responsibilities as owners of capital. 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.

Step 4: Exercise shareholder rights - proxy voting

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.

Divesting

GSI generally believes that we better serve our clients by using stewardship activities to encourage better standards of corporate governance rather than divesting.

We rebalance our portfolios when companies no longer comply with our factor criteria. We may divest on ethical grounds if a company's activities or practices are fundamentally at odds with our sustainability objectives including human rights violations, environmental degradation, or unethical business practices.

If a firm is reclassified as failing to comply with the UNGC principles, is involved in a high degree of controversy, begins to receive a significant source of revenues from an excluded business (tobacco, thermal coal, etc.), or in any way falls 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 firm.

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

Step 5: Influence through advocacy

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

Being a relatively small manager, our clients are best served when we leverage our rights and influence collectively with others. 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 groups where our involvement has been welcomed, valued, and contributes to desired outcomes.

GSI works with other investors on coalitions at Share Action, IIGCC, CA100+ and NZEI.

GSI is also 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.

Integrating ESG with a factor-based strategy

GSI has 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 start we establish 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 as our investment universe. We also filter based on total market cap, liquidity, and free float. Furthermore, we apply our responsible investment screens to exclude certain companies (as outlined above), further refining our investable universe.

Our factor approach then tilts towards smaller cap stocks whilst maintaining sector diversification. All stocks are ranked on a range of value and profitability metrics to build a composite value score. The size-tilted portfolio is then tilted towards higher-value stocks by increasing or decreasing company weights depending on the value score.

Combining ESG and factor scores

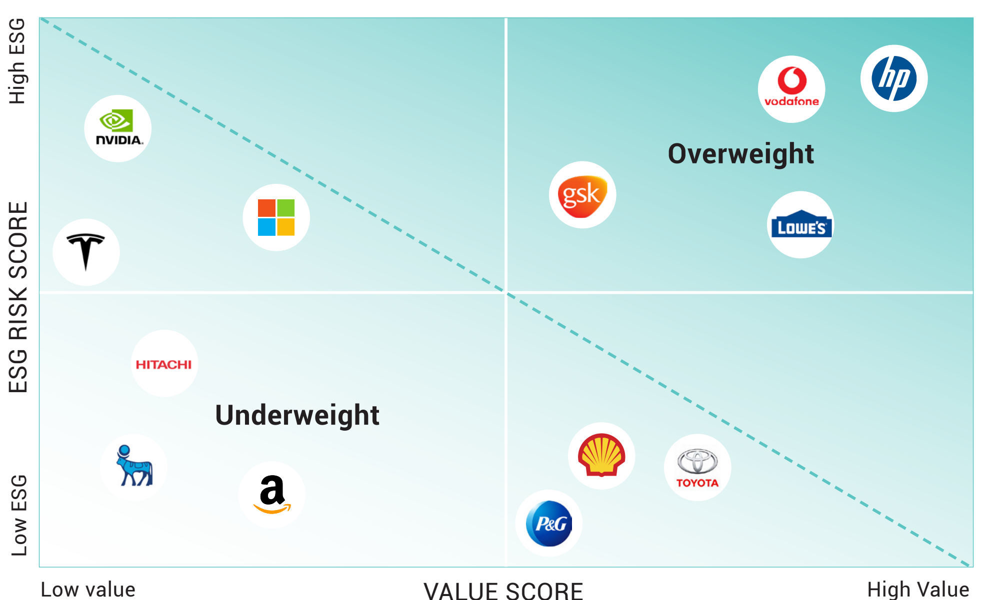
We then combine our ESG scores for the investable universe with our value scores. Thus, a stock with a higher value score and a higher ESG score will receive a higher weight; a stock with a lower value score and a lower ESG score will receive a lower weight; stocks that lie between those two extremes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

The 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.

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); **GSK** (Healthcare, UK), **Lowe's Companies, Inc.** (Consumer Discretionary, US) and **Vodafone** (Comm Services, 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 **Toyota Motor Corp** (Consumer Discretionary, Japan), **Shell** (Oil and Gas, UK), **Proctor and Gamble Company** (Cons. Staples, US).



Graph for illustrative purposes only.
Data as at June 2024.

Companies with a low value score are not eligible for purchase by the GSFV portfolio regardless of their ESG score. If their characteristics change, they may be considered in the future.

In GSV, when a stock has a low value score and a high ESG score, we will generally hold an underweight position relative to the eligible market weight. Examples include Microsoft and Nvidia (both Technology, US); and Tesla (Cons Disc, US). Low value companies are not eligible for GSFV.

Companies with low value and low ESG are also generally held in an underweight position relative to market weight in GSV. Examples are Novo Nordisk (Healthcare, Denmark), Hitachi (Industrials, Japan) and Amazon (Technology, US).

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.

Conclusion

Considering a company's ESG risk rating alongside other factors like value, profitability, and size, allows us to choose sustainable assets consistent with the return objectives of 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.

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The Prospectus and KIID can be viewed at www.gsillp.com and at http://www.geminicapital.ie

Global Systematic Investors LLP

75 King William Street, London EC4N 7BE

Tel. 020 7717 5578

www.gsillp.com

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