GemCap Investment Funds (Ireland) Plc

Investment Report

GSI Global Sustainable Value Fund

FULL YEAR REPORT – ENDING DECEMBER 2024

Market highlights

Financial markets entered 2024 with lingering concerns related to inflation across global economies. However, as the year progressed, markets and regulators became increasingly confident that inflation had stabilized after interest rate increases during 2023. In September, the Federal Reserve began a sequence of reductions in interest rates. Other central banks, such as the Bank of England and the ECB, also reduced interest rates in the second half of 2024. In the US, markets were driven by enthusiasm over advancements in Artificial Intelligence, as well as optimism regarding tax reductions and deregulation after the election of Donald Trump. However, whilst short-term interest rates declined, longer-term yields increased in the US after the election, partly in response to expected fiscal stimulus and potential trade tariffs. Markets continued to withstand geopolitical risks, such as the conflict in Gaza and the ongoing war in Ukraine.

The first half of 2024 saw positive returns in all regions. Over the first 6-month period, global developed markets posted a return of 12.8% in GBP. The most significant factors in the period were the size and value factors. Growth stocks outperformed value stocks in North America and Europe, although value fared better than growth in Asia Pacific. Larger cap stocks generally outperformed smaller stocks. In addition, companies with higher ESG scores (lower ESG risk ratings) tended to outperform relative to those with lower ratings in the US and Europe. Continuing the pattern from 2023, the return of the broad market was strongly dominated by a small number of stocks in the Information Technology, Consumer Discretionary and Communications Services sectors (e.g. Apple, Microsoft, Nvidia, Amazon, etc.), collectively known as the Magnificent Seven. The publicity surrounding innovations in artificial intelligence, especially interactive systems such as ChatGPT, has led to markets pricing in high expectations for companies that may benefit from this technology. Across sectors, listed Real Estate underperformed over the period, as property prices continued to adjust to higher interest rates. Sterling was broadly flat over the period compared to the US dollar.

The second half of 2024 also saw positive returns in North America and Asia Pacific but lower returns in Europe. Over the second 6-month period, global developed markets posted a return of 7.0% in sterling. The Magnificent Seven stocks, as a group, continued to deliver higher returns. However, this was dominated by Tesla, which returned 104% over the period, reflecting the influence of its CEO Elon Musk on the incoming Trump administration in the US. Tesla contributed to the high returns of the Consumer Discretionary sector over the period. Financials also posted strong returns across sectors, reflecting the easing of interest rates. There were no particularly strong patterns linking returns to value, size of company or ESG over the second half of 2024. Sterling fell slightly over the period by around 0.8% compared to the US dollar.

Fund performance review (in GBP)

For the 6 months to 30 June 2024.	
GSI Global Sustainable Focused Value Fund (Class A):	9.84%
Solactive Developed Markets Large & Mid Cap Index (Net):	12.77%
For the 6 months to 31 December 2024.	
GSI Global Sustainable Focused Value Fund (Class A):	6.09%
Solactive Developed Markets Large & Mid Cap Index (Net):	7.04%
For the 12 months to 31 December 2024.	
GSI Global Sustainable Focused Value Fund (Class A):	16.52%
Solactive Developed Markets Large & Mid Cap Index (Net):	20.71%

Sources: FactSet, GSI, Solactive, StyleAnalytics, as at December 2024.

The GSI Global Sustainable Value Fund has two key features that, in the longer term, we expect to generate higher returns compared to market-weighted broad global equity indices: (i) it tilts by approximately 20% towards value stocks based on a blend of value metrics and (ii) it tilts by approximately 10% towards smaller companies based on market capitalisation. In addition to its value and size tilts, Fund also tilts by approximately 20% towards stocks with higher ESG ratings (i.e., lower ESG risk ratings) as provided by Sustainalytics, a leading provider of ESG ratings.

Over the 1-year period to end December 2024, value stocks significantly underperformed their growth counterparts in North America, whereas value stocks slightly outperformed growth stocks in Europe and Asia Pacific. The tilt of the Fund towards value stocks contributed around -3.0% of excess return over the period. Small companies underperformed large companies over the period in North America and Asia Pacific. Overall, the tilt of the Fund towards smaller stocks contributed approximately -2.7% of excess return over the period. Higher ESG scoring stocks (i.e., lower ESG risk rated stocks) generally outperformed lower ESG rated stocks in Europe and Asia Pacific but performed similarly in North America. The tilt of the Fund towards higher ESG scoring stocks contributed approximately 0.2% of excess return over the period. The Fund benefited overall from its sector positioning over the period as the overall contribution from sector allocation was 1.6%. Much of the shortfall in performance was attributable to the underweight position of the Fund compared to the benchmark in the so-called Magnificent Seven group of mega-cap stocks in the US, which collectively outperformed the global benchmark by 29% during the year. On average, the Fund was underweight by around 6.6% in these stocks (at 14.6% vs 21.2% for the benchmark), leading to a negative allocation contribution of -2.9%.

Outlook

Over 2024, markets adapted to the increase in interest rates across the world that were started during 2023, as inflation was brought under control, and then to the easing of rates toward the end of the year. Markets are now pricing in a modest reduction in interest rates of around 0.5% over one year in the US. However, there is rising concern that the imposition of trade tariffs might contribute to higher expected inflation, which in turn could increase volatility in exchange rates and bond yields. Economic commentators expect a period of reasonably robust growth in 2025.

The OECD currently projects growth across the world in 2025 of 3.3%. However, it projects lower growth for the UK and the Euro region of 1.7% and 1.3%, respectively.

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

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

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

Sustainable Finance

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

We bias the portfolio towards companies that are assessed to have higher scores with respect to environmental, social and governance (ESG) criteria in determining the weight of that company in the portfolio. The ESG criteria cover companies' exposure to and management of the following:

Environmental issues: such as climate change and carbon emissions, air and water pollution, and energy efficiency;

Social issues: such as gender and diversity, human rights, and labour standards;

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

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

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

- **Preparedness:** An assessment is made of how each company's management systems and policies are designed to mitigate material ESG risks. Examples include health and safety programmes and targets for hazardous waste.

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

- **Quantitative Performance:** A company's ESG performance is evaluated based on targets and quantitative commitments. Examples include: employee turnover rate, carbon intensity and number of fatalities.

- **Qualitative Performance:** Monitoring and assessing a company's involvement in incidents and controversies, which may highlight inadequate company preparedness to manage its ESG risks.

Where a comprehensive range of ESG indicators is not available, ESG ratings will be derived from the information available. Not all information is equally useful, so ratings will be based on the information that best represents a company's ability to manage key ESG issues. Raw ESG ratings are adjusted for regional, sector and size effects. This way, after ESG scores have been integrated with companies' value characteristics, the Fund retains its target exposures to regions, sectors, and smaller companies. ESG data and scores will be sourced from one or more specialist third party ESG data providers and may be supplemented by internal research. From time to time, events concerning a specific company may happen faster than can be incorporated and delivered by a third-party provider. In these circumstances, we may modify the ESG scores to reflect current events which have yet to be reflected in the data provided externally.

Sustainability risks

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

Taxonomy

While the Fund promotes environmental characteristics in the manner described above, it does not currently commit to investing in "sustainable investments" with an environmental objective within the meaning of SFDR. Accordingly, the investments underlying the Fund do not take into account the EU criteria for environmentally sustainable economic activities.

The Fund is a regulated investment vehicle incorporated in the Republic of Ireland, so it is outside the scope of the UK’s Sustainability Disclosure Requirements (SDR).

ESG Metrics

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

ESG Risk Rating Distribution as of 31 December 2024

Source: GSI LLP using data from Solactive and Sustainalytics as of 31 December 2024.

<u>Portfolio level Statistics</u>

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

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

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

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

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

Portfolio Level Statistics for Global Sustainable Value Fund

Name of Fund	Wtd Avg ESG Risk Rating	Wtd Avg Carbon Intensity	Fossil Fuel Exposure
GSI Global Sustainable Focused Value Fund	17.8	41.4	2.7%

Name of Fund	Portfolio Environmental Risk Score	Portfolio Social Risk Score	Portfolio Governance Risk Score
GSI Global Sustainable Focused Value Fund	3.5	8.4	5.9

Sources: FactSet, GSI, Solactive, StyleAnalytics, Sustainalytics, Morningstar. Data as at 31 December 2024

Further information

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

Important Information

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GSI Funds are regulated investment vehicles incorporated in the Republic of Ireland and therefore, outside the scope of the UK's Sustainability Disclosure Requirements (SDR) and are not seeking an SDR label. The Fund does not claim compliance with the SDR requirements. Investors should consider the fund's stated objectives and approach in determining suitability for their needs.

This document should be read in conjunction with the Fund's Prospectus, key investor information document (KIID), or offering memorandum.

GSI does not provide investment advice. Potential investors should seek independent advice regarding the suitability of the Fund for their investment needs. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Investors may not get back the full amount initially invested.

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The GSI Global Sustainable Value Fund and the GSI Global Sustainable Focused Value Fund are sub-funds of GemCap Investment Funds (Ireland) plc, an umbrella-type open-ended investment company with variable capital, incorporated on 1 June 2010 with limited liability under the laws of Ireland with segregated liability between sub-funds.

GemCap Investment Funds (Ireland) plc is authorised in Ireland by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011) (the "UCITS Regulations"), as amended. Gemini Capital Management (Ireland) Limited, trading as GemCap, is a limited liability company registered under the registered number 579677 under Irish law, pursuant to the Companies Act 2014, which is regulated by the Central Bank of Ireland. Its registered office is at GemCap Investment Funds (Ireland) plc 7th Floor, Block A, One Park Place, Hatch Street, Dublin 2. GemCap acts as both a management company and global distributor to GemCap Investment Funds (Ireland) plc.

Global Systematic Investors LLP is registered as a limited liability partnership in England & Wales with the number OC370686). Its registered office is at 75 King William Street, London, EC4N 7BE. Authorised and regulated in the United Kingdom by the Financial Conduct Authority (FRN 572537).

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