Systematic Rules Based Investment Process

GSI has a highly disciplined and rules-based investment process which has been developed over several years and is based on the substantial cumulative experience of its investment staff.

Our investment process aims to deliver long-term returns through a systematic and scalable approach.

We construct portfolios with factor based exposures designed to capture the higher expected returns associated with these well established factors. We then integrate tilts towards companies with stronger ESG scores, ensuring that the integrity of the factor exposures is maintained and not diluted in the process.

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Investment Committee

The investment policy for all GSI funds is set by the Investment Committee. All investment personnel are members and active participants in the Investment Committee.

The key functions of the Investment Committee are:

- Determine the investment policy of the firm
- Approve any changes to investment policy
- Set allocations across markets, e.g. in multi-country portfolios
- Determine allocations to key investment factors such as size, value, profitability etc
- Determine and review specific investment objectives and policies of each fund
- Review compliance of funds with their objectives and policies
- Review performance of funds compared to their benchmarks and other comparators
- Review internal or external materials relating to portfolio analysis
- Review research on asset pricing and ESG and decide on any proposed revisions to the investment strategy based on new research findings
- Evaluate analyses and data for new product development
- Commission external research to examine asset pricing issues

Resources

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

- An extensive global dataset of financial information provided by **FactSet** covering market based and fundamental data across global equity and bond 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**
- Trading services, including best execution, record keeping, and third-party portfolio reconciliation, provided by **Vident International**
- Stewardship and proxy voting decisions are supported by high-quality ESG and governance data, enabling informed and sustainable outcomes based on in-depth research, provided by **Minerva Analytics**
- A rich set of proprietry software resources developed internally for portfolio construction, backtesting, and analysis

The members of the Investment Committee have established contacts with numerous academics across several highly regarded universities, including London Business School, Bayes Business School (formerly Cass Business School), the University of Cambridge, and Toulouse Business School.

Investment Process

The investment process is highly disciplined, systematic, and rules-based.

The process begins by determining the region the fund will cover, such as developed or emerging markets or specific areas or countries. Within the eligible region, we then determine the varying degrees of tilts to gain exposure to a range of factors associated with higher expected returns, as outlined in academic asset pricing literature.

The current list of funds includes the Global Aware Value Fund (GAV), formerly the Global Sustainable Value Fund and the Global Aware Focused Value Fund (GAFV), formerly the Global Sustainable Focused Value Fund. Both funds target investments in global developed markets (excluding South Korea).

The current list of funds includes the GSI Global Aware Value Fund (GAV) and the GSI Aware Focused Value Fund (GAFV). Each fund has different degrees of factor tilts.

1. Eligible Universe

- 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
- Size - We then determine the size range of the companies we target - e.g., large, mid-cap, small cap. This is based primarily on market capitalisation. We exclude illiquid micro-cap companies, which are difficult and costly to trade
- Screens - We may also apply screens based on total market cap, liquidity, and free float

The resulting set of securities forms the eligible universe for a given strategy.

We believe in diversification across stocks, sectors, and countries, which helps to reduce risk. By emphasising diversification, we are able to design portfolios that deliver robust exposure to a range of different factors and reduce exposure to a narrow group of mega-cap stocks.

In our global portfolios (for both GAV and GAFV):

- The eligible universe is divided into 3 regions: Europe, North America and Asia Pacific
- Market weights are applied across each region
- We also apply the market weights of the USA, the Euro region, and Japan
- We use free float adjusted market caps from Solactive to determine market weights

Rebalancing - Region/country weights are enforced on rebalance dates but may drift from market weights between rebalance dates. Portfolio rebalancing is generally conducted on a quarterly basis.

2. Factor Exposure

The objective of our investment strategy is to give investors exposure to a range of well understood factors. The key factors we target are size, price or "value", profitability, net distribution, and momentum (passively). These factors are among the most well established ones in academic literature, and they can be exploited in a low-turnover manner.

- Market factor - broad exposure to equities across global markets
- Size factor - smaller company stocks have higher expected returns than larger companies
- Value factor - stocks trading at lower prices relative to a measure of their fundamental value have higher expected returns compared to stocks trading at higher prices

We believe in diversification across stocks, sectors and countries, which helps to reduce risk.

By paying more attention to diversification, we are able to design portfolios that have better risk/return profiles than market-weighted indices, which tend to be concentrated in large-cap stocks and in a few sectors only.

- Profitability factor – companies generating higher profits, on average, have higher expected returns
- Net issuance factor – companies that have a lower net issuance of shares (i.e., fewer new shares issued compared to buybacks) tend to have higher expected returns than those with higher levels of new share issuance
- Momentum factor – companies with higher/lower past return trends have higher/lower expected returns – this is captured passively

Each of these factors is captured by one or more key metrics.

- Size is captured by market capitalization. Smaller companies have been shown to have higher expected returns
- Value is captured by book-to market, EBITDA/Enterprise Value and Cash Flow/Enterprise Value
- Profitability is captured by Cash Flow Return on Investment
- Net issuance captures share issuance net of share repurchases and dividend payments

For each of these factors we set an exposure level for each company.

We combine the exposures across factors for each company according to the desired blend of the factors that we wish to achieve. A composite return factor score is thereby computed for each company which ranges from zero to 2.

3. ESG Tilt and Integration

We also tilt the portfolio towards companies that are assessed to have lower ESG risk ratings, whilst maintaining the required exposure to the factors mentioned above that are related to higher expected return.

ESG risk ratings measure the extent to which the enterprise value of a company is at risk due to its exposure to ESG issues that are material to its business. This risk metric is determined by summing the unmanaged risk factors of a company regarding the most pertinent ESG issues for the company.

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

The objective of our investment strategy is to give investors exposure to a range of well-understood factors. The key factors that we target are size, price or “value”, profitability, and net distribution

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 MEI's managed
- Unmanaged Risk – How much of the Mei exposure remains unmanaged

Similar to our composite return factor score, we create an ESG score based on the underlying ESG risk ratings by subtracting the risk ratings from 100, so that companies with higher transformed ESG scores have lower ESG risk ratings. This score is then ranked separately within mega/large and within mid/small cap to lie between 0 and 2.

ESG risk ratings in general, as well as in our portfolio context, are summarised in the document "ESG Risk Ratings".

4. Company Weight in Portfolio

We then create a combined Return-ESG score based on the composite return factor score and our ESG score. The weight of a company in the portfolio is a function of the market weight of that company times the combined Return-ESG score.

Company weight = Market weight x Return-ESG score

If the Return-ESG score is:

- zero, that company will have zero weight
- less than 1, then it will be underweighted relative to the benchmark weight depending on the strength of the score
- 1, it will have a neutral weight relative to its market-weighted benchmark
- more than 1, then it will be overweighted relative to the benchmark weight depending on the strength of the score

The resulting portfolio will exhibit appropriate exposures to each of the targeted factors, as well as overweighting higher ESG companies and underweighting lower ESG companies.

The weight of a company in the portfolio is a function of the market weight of that company times the combined return-ESG score.

Additional Screens

We apply a set of product involvement exclusions, to our portfolios to better align them with the United Nations' Sustainable Development Goals (SDGs). These product involvement exclusions include oil sands, thermal coal, tobacco, and pesticides, among others.

We expect companies to operate within the norms and standards set by the UN Global Compact (UNGC); therefore, we also exclude companies that violate these principles.

Furthermore, we reduce the overall exposure of each portfolio to fossil fuel companies and the weighted average greenhouse gas intensity (GHG) of each portfolio by at least 50% compared to the benchmark, respectively.

A more detailed overview of our sustainability process can be found in our Screening and Integration Overview.

The resulting portfolio will exhibit appropriate exposures to each of the factors that we target as well as overweighting higher ESG companies and underweighting lower ESG companies.

Portfolio Review and Monitoring

The portfolio is reviewed at least monthly by the Investment Committee. We obtain an external analysis of the portfolio, which provides an attribution analysis, key factor exposures and contributions to tracking error.

We review the performance of the portfolio compared to its benchmark as well as to other comparators, including global style indices. On a quarterly basis, we analyse the style exposures of the portfolio using the Style Analytics portfolio analysis software.

Other items reviewed at the IC meetings include:

- Transaction reporting
- Portfolio turnover
- Portfolio methodology
- External risk reports provided by Risk Systems
- Cash levels
- Valuation issues
- Portfolio compliance monitoring

Strategy Options

Currently, GSI focuses on equities only and does not manage fixed income strategies or multi-asset strategies.

Our strategies are long-only and we do not permit shorting.

We do not apply currency hedging in our funds or their classes.

The current list of funds includes the Global Aware Value Fund and the Global Aware Focused Value Fund. These funds are invested across global developed markets (excluding South Korea).

Each fund has different degrees of factor tilt. The 'Focused Value Fund' has a stronger value tilt than the Global Aware Value Fund and takes larger positions away from a market-weighted index.

ESG integration is consistently applied across both funds and they are both Article 8 classified.

For more details on the funds available, refer to our website: [Investments - GSI]

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Systematic factor investing with ESG awareness