



Since 1857

**Gresham House**

*Specialist asset management*

# Stewardship Code Report

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For the year to 31 December 2021

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## **Disclaimer / Important Information**

This report is issued by Gresham House Asset Management Limited (GHAM) which is authorised and regulated by the Financial Conduct Authority (FCA). Its registered office is at 5 New Street Square, London EC4A 3TW.

Please contact a member of the Gresham House team if you wish to provide feedback on this document. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

[www.greshamhouse.com](http://www.greshamhouse.com)

This report has been reviewed and approved by the GHAM Board and signed by the Chief Executive.

Gresham House Holdings Limited, a wholly-owned subsidiary of Gresham House plc, acquired Appian Asset Management Limited in 2020, now named Gresham House Asset Management Ireland Ltd. Since acquisition we have been focused on integrating our sustainable investment and stewardship processes into their approach. The approach to sustainable investment and stewardship adopted by Gresham House Asset Management Ireland Limited is still being developed and as such has not been included in this report. Gresham House Ireland is regulated by Central Bank of Ireland.

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## Alignment of report with Stewardship Code Principles

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# 1 Foreword

**Welcome to our 2021 Stewardship Code Report, which explains how we meet the twelve stewardship principles, sets out our 2021 achievements, our focus for 2022, and how we have continued to improve the integration of stewardship activities into our investment processes.**

Gresham House's purpose is to deliver effective and alternative investment solutions to help clients achieve their financial objectives whilst making a meaningful contribution to the transition to a more sustainable way of life.



Our purpose relies on and includes the application and management of stewardship activities such as environmental, social and governance (ESG) integration, engagement and voting.

Being an active steward of our client's assets is a key part of creating and protecting long term value where we believe positive outcomes are achievable across financial and sustainability objectives.

## Developments in stewardship activities

Our approach to sustainability has continued to evolve over the last 12 months since we published our first Stewardship Code Report. We have built on our strong sustainability credentials and nurtured a culture with sustainability at its heart.

In 2021 we continued to expand our range of ESG-focused investment opportunities whilst delivering strong financial returns for clients. At the same time, we further embedded sustainability throughout the business with the launch of our Corporate Sustainability Strategy to underpin our sustainability ambitions and reinforce our license to operate as an asset manager in this field.

We have evolved our existing policies and processes to ensure the investment teams have the appropriate tools to integrate ESG analysis, engagement and voting activities into their investment processes. We recognise that the successful development of our business is contingent on how well we can evolve to integrate sustainability into our business practices and investment strategies to the benefit of investors and the Company.

Against that backdrop, I am pleased to report just a few of our accomplishments during the last year:

- Set our Corporate Sustainability Strategy to identify underlying objectives, as well as set out the actions we will take to meet our sustainability goals.
- Set up a new Board Sustainability Committee and evolved our existing Sustainable Investment Committee to the new Sustainability Executive Committee, which aims to elevate responsibility for sustainability to senior executive level, reflecting the importance and materiality of sustainability to the business.
- Commenced projects to calculate our baseline operational and asset-level carbon emissions and set a science-based target to reduce emissions. In 2022 we will formalise these targets and submit them for accreditation to the Science-Based Targets initiative to ensure that they are aligned to a 1.5-degree transition pathway.
- Developed division specific ESG KPIs based on guidance from sustainability frameworks, regulatory requirements and our own materiality analysis. We anticipate these banks will drive more informed investment decision making, improve engagement planning and enhance stakeholder reporting.
- Met with the management teams of almost all our publicly-listed companies and 100% of our unquoted portfolio companies on matters related to board composition, strategy, capital structure, culture, reporting, risk management and material risks arising from social and environmental matters.

- Contributed to boards as a member or observer on the majority of our private equity investments.

Published our second [Sustainable Investment Report](#) to increase reporting and transparency. It details various case studies, measurements of what we have achieved and key milestones and can be found on [our website](#).

### **Using our influence through active ownership**

We are clear on our active ownership responsibilities to help our clients achieve their financial and sustainability objectives. Over the last 12 months we have continued to engage with all material stakeholders that could influence long-term value, such as local communities, product suppliers and governments.

This hands-on approach is embedded across all our assets. Examples include:

- Taking a board seat or recommending an appropriate individual for the role within Sustainable Infrastructure and Private Equity
- Appropriately, and selectively, engaging and listening to other public equity shareholders where governance situations may warrant it
- Interacting with governments, local authorities, landowners and local communities in our Forestry and Housing divisions
- Working with developers, landowners, and other core stakeholders to maximise the delivery of renewable energy or enhance the efficiency of Battery Energy Storage System (BESS) plants, whilst continuing to address concerns and needs of local communities within New Energy.

We support our clients in achieving their dual financial and sustainability objectives. Looking ahead, our Corporate Sustainability Strategy provides further direction to continue to evolve and enhance our approach to ensure we continue to provide additionality to our clients while also acting as responsible custodians of the assets we manage.

### **Placing sustainability at the heart of our culture**

Our people are our greatest asset and are integral to all that Gresham House achieves. We recognise that our people are the foundation of our success, and we aim to create a culture where they can thrive.

The Gresham House team has grown steadily in recent years and totalled 185 employees in the core asset management business at the end of 2021. We take acquisition decisions based on the degree of alignment with our sustainability objectives, and work with acquired companies to improve their sustainability practices. This involves introducing acquired businesses to existing Gresham House sustainability tools and methods, as well as developing new frameworks to enhance our analysis of ESG risks and opportunities.

The Group Management Committee is committed to embedding sustainability throughout the business to underpin the sustainable focus of our investment approach. To ensure high-quality governance of our sustainability strategy, we have developed a network of sustainability-related committees which oversee our work.

In 2021 we made two major improvements to ensure we achieve our sustainability ambitions:

1. Added a Board Sustainability Committee to provide oversight and accountability for our approach to sustainability across our operations and investment practices.
2. Established the Sustainability Executive Committee to elevate responsibility for sustainability to executive level, reflecting the importance and materiality of sustainability to the business.

We also appointed two new hires to the Sustainable Investment team to continue to develop and coordinate this important work across the Group. The focus of this work includes enhancing our stewardship practices by increasing monitoring and reporting of outcomes from our engagement and voting activities with portfolio companies and other stakeholders.

### **Looking ahead to 2022**

Last year was another extremely busy year for Gresham House and was focused on further embedding our approach to sustainability, including stewardship, into our investment processes and the way we operate.

The development of our Corporate Sustainability Strategy provides us with a clear roadmap of what we will be aiming to achieve over 2022, as well over the medium term to 2025.

Between now and 2025, the implementation of the Corporate Sustainability Strategy will see us enhance our position as a recognised leader in sustainable investment, which in our sector means a core focus on ESG investment goals and stewardship.

## 2 Introduction to Gresham House

### 2.1 About us

Gresham House (the “firm”, “us”, “we”, “our”) is a specialist alternative asset manager. We provide investors with a range of investment products, across real assets, public equity and private equity. Our investment solutions aim to meet investors’ long-term objectives whilst also positively contributing to society and our environment. We are creating an asset to covet, for our shareholders, clients and employees, delivering value both through financial returns and our focus on sustainability.

We have a rich heritage as one of the oldest London Stock Exchange-quoted companies still operating today. The Firm was first incorporated under the name of Gresham House Estates Limited in May 1857. In December 2014, a new management team led by Chief Executive Officer Tony Dalwood, who had an ambitious vision for the firm, was established, transforming Gresham House into the specialist alternative asset manager it is today.

Since then, the firm has grown substantially through a combination of acquisition and organic growth. Various acquisitions have been successfully integrated into the Gresham House group as part of our strategic plan to diversify the business and broaden our asset-class capabilities in order to offer specialist alternative investment products to clients.

### 2.2 Our assets

We actively manage £6.5bn of assets (as at 31 Dec 2021) on behalf of institutions, family offices, charities and endowments, private individuals and their advisers.

#### 2.2.1 Group divisional allocation

Assets under management (AUM) are split across Strategic Equity and Real Assets as summarised in the chart below:



1. As at 31 December 2021. These figures reflect include £330.5mn AUM from Gresham House Asset Management Ireland Limited (GHAM Ireland Ltd) which is not covered by this UK Stewardship Code Report. All following AUM figures, therefore, are calculated based on an AUM of £6.22bn.

#### 2.2.2 Gresham House Asset Management (GHAM) geographical allocation

Our assets are predominantly based in the UK but we have some Forestry assets in Australia and Ireland:



#### AUM by Geography<sup>1</sup>



1. As at 31 December 2021. Percentages exclude all GHAM Ireland Ltd AUM.

### 2.2.3 Identification of sustainable investment approach

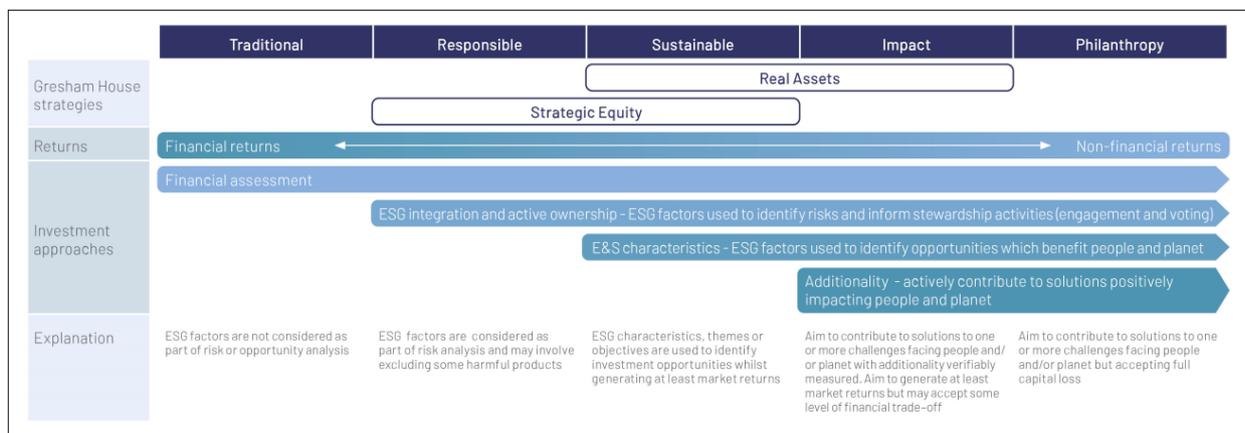
The Spectrum of Capital, as shown below, explains the difference between certain investment strategies and how ESG analysis and stewardship activities (engagement and voting) are used within the investment process.

It ranges from 'Traditional' investment, which is entirely focused on financial returns, to 'Philanthropy', which focuses only on non-financial returns such that investors accept full loss of capital invested.

All our investment solutions incorporate ESG analysis into our selection, evaluation, governance, and engagement processes across the lifecycle of each investment. However, some of our assets target specific environmental or societal benefits.

We use the below spectrum of capital to identify the sustainable investment approach applied to our asset divisions. It shows that our asset divisions provide investment solutions classed as 'Responsible' through to 'Impact'.

Integrating sustainable investment practices, including ESG analysis and stewardship activities, across our strategies, has a clear fit with making an active contribution to the sustainability agenda at a global, local and asset level over the long term.



### Evolution of terminology

We recognise that there will continue to be significant regulatory focus on sustainable investing in the coming years, such as through UK Sustainability Disclosure Requirements (SDR) and EU Sustainable Finance Disclosure Regulation (SFDR). Given this push to standardise sustainability terminology, we anticipate that some of the terms used in this spectrum of capital will evolve in line with these regulatory requirements overtime.

## 2.3 Our culture

Our business mission is to deliver strong, consistent financial performance in alternative investments and align ourselves to our clients and shareholders' long-term objectives.

Sustainable investment is integrated across all our investment strategies and includes the integration of Environmental, Social and Governance (ESG) and application of active stewardship, including engagement and voting. We strongly believe that these aspects of sustainable investment are central to the future growth of our business.

We promote a culture of individual flair and entrepreneurial thought, in which performance and results are recognised and rewarded. Our culture empowers our people to design and implement alternative investment solutions capable of building a sustainable future and ensuring ESG considerations remain front and centre in our thinking.

### Purpose

Deliver effective and alternative investment solutions to ensure clients achieve their financial objectives whilst making a meaningful contribution to advancing the world's transition to a more sustainable way of life.

### Values

Our values are critical to the success of the firm and provide a platform for our staff to develop both individually and as group:



#### **Ambitious**

We are driven, ambitious and reflective. We take decisions based on robust analysis and in-depth research, while always ensuring we look back on our results with a critical eye to understand how to improve.



#### **Dynamic**

We act with purpose and urgency and are dedicated to creating shareholder and investor value through innovative investment solutions that tackle environmental and social challenges.



#### **Meritocratic**

We recognise and develop talent from a range of backgrounds to help us be innovative, forward thinking and ultimately to deliver the best for all our stakeholders.



#### **Empowered**

We have created a culture based on empowering individual flair and entrepreneurial thinking.



#### **Collaborative**

We work together for the long-term benefit of our clients, shareholders and society. We also work proactively with management teams and key stakeholders to instigate positive change.



#### **Authentic**

We are committed to building a sustainable future through authentic alignment of our actions to our purpose, including implementation, monitoring and reporting. We pride ourselves on being honest about our key strengths whilst understanding where improvements are needed.

## 3 Strategic direction in sustainability

### 3.1 Corporate Sustainability Strategy

#### Development

In 2021 we introduced our Corporate Sustainability Strategy, which supports our GH25 strategic objective “to become a recognised leader in sustainable investment, including Environmental, Social and Governance (ESG)”. Our aim is to lead by example through our internal commitments to sustainability and align our actions with our corporate purpose.

The Corporate Sustainability Strategy was developed through an internal research, analysis and strategy process and aims to identify underlying objectives, as well as set out the actions we will take to meet our sustainability goals.

It is aligned to our wider GH25 strategy, which means all objectives set are targeted to be achieved by 2025. We see this as distant enough for us to set ambitious targets, but near-term enough that those targets are on the horizon and can drive our motivation.

#### Drivers of the Corporate Sustainability Strategy

1. **Growth creation.** Sustainability drives innovation, enabling us to access new markets, products and customers
2. **License to operate.** Sustainability strategies and a focus on ESG are increasingly viewed as a license to operate for asset managers
3. **Value protection.** A robust strategy mitigates against sustainability-related risk, including regulatory and reputational risk
4. **Efficiency improvements.** Sustainability-related costs, including water and waste, and employee turnover and recruitment costs, can be decreased
5. **Stakeholder requirements.** Our commitments support and reassure stakeholders in the delivery of their own sustainability strategies

#### Looking forward

Between now and 2025, its implementation will see us enhance our position as a recognised leader in sustainable investment, which in our sector means a core focus on ESG investment goals.

ESG factors are front-of-mind value drivers, both in the investment world, and in policy and business. As an asset manager, being able to stand up with a strategy based on meaningful and impactful targets is vital to demonstrating our expertise and integrity in this evolving landscape.

#### Three core pillars

The Corporate Sustainability Strategy is shaped around three interconnected and mutually reinforcing pillars, based on our roles as an organisation. It distinguishes clearly between our approach to sustainability within our investments, ***Gresham House as a Sustainable Investor***, and that of our own operations and business, ***Gresham House as a Sustainable Employer and Business***.

We also separated our charitable approach into a third pillar, ***Gresham House as a Sustainable Corporate Citizen***, to highlight the contribution Gresham House offers to the society it is a part of through donations and volunteering.

Our 2021 Sustainable Investment Report provides further details on all three pillars.

## Gresham House's Corporate Sustainability Strategy:



■ Core pillars    ■ Priority topics

## 3.2 Achievements in 2021

### 3.2.1 What we've done and what's next



### 3.2.2 Public Equity

Achievements in 2021:

- Further cultural adoption of ESG and stewardship considerations
- More than double the number of ESG Decision Tools were completed in 2021 than in 2020
- Greater focus on ESG risks and opportunities as part of Initial Appraisal papers (IAs) and Investment Committee (IC) papers and discussions

Actions for 2022:

- Finalisation of ESG KPIs to be measured and reported on for all Public Equity funds
- Selection of data provider to support in the collation and measurement of ESG data
- Update engagement process to better identify and prioritise engagement activities, and measure engagement and ESG related outcomes

### 3.2.3 Private Equity

Achievements in 2021:

- Undertook a comprehensive ESG survey of our unquoted investments, the results of which will be shared with portfolio companies and guide our engagement priorities for 2022. *Note this survey was only for our Baronsmead portfolio as it was undertaken pre-Mobeus acquisition and integration*
- Updated our private equity board pack for early stage software as a service (SaaS) companies to include greater information on ESG, providing information on the importance of ESG, how to integrate ESG into early stage SaaS businesses, risk management, strategy and reporting & assurance
- Started to integrate our approach to sustainability with Mobeus VCT business post acquisition by Gresham House in Q4 2021

Actions for 2022:

- Build out tailored and comprehensive engagement strategy, incorporating results of the ESG survey undertaken in 2021
- Run sustainability-oriented webinars for portfolio companies
- Support investee companies that are pursuing B-Corp status
- Develop our process for considering more sustainably-focused investments, including categorising investments across different sustainability themes
- Finalisation of ESG KPIs to be measured and reported on for all Private Equity funds and choice of data provider to support in this task, if required

### 3.2.4 Forestry

Achievements in 2021:

- ESG Decision Tool and investment process updated to include the International Finance Corporation (IFC) exclusions
- Launch of the Gresham House Forest Charter clearly outlining the division's key commitments in relation to sustainable forest management and investments
- First biodiversity survey carried out for all forest properties

Actions for 2022:

- Finalisation of the ESG KPIs to be measured and reported on for all forests under management, reflecting the commitments made in the Forest Charter
- Industry engagement on carbon credits to support woodland creation and better outcomes for climate change mitigation
- Development of approach to measure biodiversity across all forest sites

### 3.2.5 New Energy

Achievements in 2021:

- Updated all new contracts for solar assets to specifically include clauses around modern slavery
- Updated Supply Chain Policy for Gresham House Energy Storage Fund (GRID) to tighten controls and reporting requirements relating to forced labour
- Initiated search for a provider to audit and assess supply chain risks in the GRID battery supply chain for GRID
- Development of Supply Chain and Biodiversity Sub-Committees to enhance education and drive actions linked to both topics for the division

Actions for 2022:

- Select provider for supply chain auditing and ESG risk assessment for GRID; identify key risks and develop plans for mitigation
- Continue engagement with key counterparties and industry actors (such as the Green Finance Initiative) to communicate how the deployment of battery energy storage systems (BESS) is needed to achieve decarbonisation goals
- Increasing active engagement with suppliers to influence sustainability practices and policies
- Develop a clear process to integrate biodiversity into investment and asset management at renewable energy sites

### 3.2.6 Sustainable Infrastructure

Achievements in 2021:

- Incorporated Sustainability and Diversity, Equity and Inclusion (DEI) policies into contract terms for new portfolio companies to agree to, sign and implement
- Undertook lifecycle carbon analysis for two underlying investments, including those in waste-to-energy and vertical farming sub-sectors. This has helped our understanding of our impact and will guide our ESG engagement during 2022
- Authored a number of thought leadership pieces and presented at conferences promoting the benefits of sustainable infrastructure
- Developed an impact framework to be integrated into the investment process

Actions for 2022:

- Apply Gresham House's newly developed impact framework to sustainable infrastructure funds to better understand, monitor and articulate the impact of our investments

- Finalisation of ESG KPIs to be measured and reported on for all sustainable infrastructure funds
- Undertake broader environmental analysis of all our underlying investments, such as detailed carbon footprinting analysis
- Align our funds with the EU's Sustainable Finance Disclosure Regulation

### 3.2.7 Housing

Achievements in 2021:

- Rolled out our Environmental and Customer Charters, which are designed to improve practices across the shared ownership sector, while providing benefits to shared owners and investors
- Joined the Equity Impact Project (EIP), led by The Good Economy and Big Society Capital. These workshops aim to develop a set of globally aligned standards for best practice management, measurement and reporting of impact for equity investments in social and affordable housing
- One of our funds, ReSI plc, worked with The Good Economy to provide an assessment of its environmental and social impact across its portfolio. This included undertaking a survey to better understand residents' experiences

Actions for 2022:

- Continue to contribute to the Equity Impact Project workshop with The Good Economy and Big Society Capital. In 2022 we will contribute to developing a set of globally aligned standards for best practice management, measurement and reporting of impact for equity investments
- Embed the newly developed ESG Decision Tool into investment processes to uncover material ESG risks that need to be mitigated and monitored, as well as to identify ESG opportunities that have the potential to drive value
- Introduce our new ESG Housing Wheel that seeks to categorise our impact across six core sustainability areas, outline target outcomes and methods of measuring success
- Post the completion of our carbon footprinting exercise, we will publish a "road to net zero" report for our ReSI LP, ReSI plc and BSIF housing funds
- Improving ESG monitoring and reporting, including through building an impact framework for impact-aligned assets
- Finalisation of ESG KPIs to be measured and reported on for all housing funds

## 4 Our clients

At Gresham House, we strongly believe in prioritising the interests of our clients in all our processes. Throughout this report, we highlight how this principle has been embedded across our business including in the management of conflicts of interests, voting, and employee processes.

### 4.1 Type

We split our clients into:

1. **Retail** - including direct and intermediated via wealth managers and Independent Financial Advisers (IFAs)
2. **'Institutional'** - including Pension Funds, Family Offices, Charities and Insurance Companies

The tables below show how our clients invest across our asset divisions and where our clients are based across the World. All data and percentages exclude GHAM Ireland Ltd AUM<sup>1</sup>.

Investor type by AUM	Retail	51.0%
	Institutional	49.0%
Retail AUM by division	Public Equity	23.4%
	Private Equity	28.0%
	Forestry	40.6%
	Housing	2.5%
	New Energy and Sustainable Infrastructure	5.5%
Institutional AUM by division	Public Equity	0.4%
	Private Equity	0.0%
	Forestry	54.8%
	Housing	11.1%
	New Energy and Sustainable Infrastructure	33.7%
Geographical split of clients	UK	83.0%
	EU	1.6%
	Other Europe / Middle East (inc. Israel and UAE)	7.9%
	Other	0.1%
	Philippines / HK / Malaysia / Singapore / Australia	7.4%

<sup>1</sup> See 2.2.1 above. All data as at 31<sup>st</sup> December 2021

## 4.2 Feedback and communication

Effective communications with investors and other stakeholders is a crucial component of fulfilling our stewardship responsibilities and meeting our sustainable investment capabilities.

We measure our success in meeting the needs of our clients through regular feedback we receive and organic growth in assets under management (AUM). Such feedback has often given rise to changes in process such as the structure and timing of Limited Partnership Investment Advisory Committee (LPIAC) meetings, incorporation of specific requests into investment mandates and improvements in reporting.

In the future, we will consider formal third-party executed client feedback surveys to ensure clients' views can be objectively given and analysed.

### Retail

We manage c.£3.2bn (31 Dec 2021) for retail clients across our five divisions. These include advised and non-advised clients.

The primary means of communication is through factsheets, presentations and client reports for both listed and unlisted funds. The fund managers and the sales team regularly host roadshows to meet with IFAs and investment consultants to discuss the strategies and field questions.

This market is less mature in its awareness of sustainable investment than the institutional market. However, this is changing as an increasing number of IFAs want to understand more about our sustainable investment approach and credentials.

Across all our strategies, we generally share specific and relevant insights with our investors via commentary, as part of the funds' monthly factsheets, as well as via presentations.

These methods of engagement with investors ensures client views are heard and taken into account.

### Case Study: Prospective client engagement

In 2021, a large national wealth manager were looking to add our LF Gresham House UK Multi Cap Income Fund to their approved list. As part of the assessment, the client team met with our investment and sustainability professionals to better understand how ESG considerations were factored into the Fund's investment and decision-making process. The client fed back that we put a lot more thought into the potential environmental and social risks, as well as opportunities. They also they liked the ESG Decision Tool that is used to measure materiality of risk for any new investment.

### Institutional

We manage c.£3.05bn (31 Dec 2021) of assets for institutional clients (86% of these clients are UK based). We regularly communicate with these clients to understand their stewardship priorities and obtain feedback primarily through meetings, but also through ongoing due diligence reviews and periodic reporting.

These investors are typically limited partners in our funds and in some cases also members of the relevant Limited Partnership Investment Advisory Committee for those funds ("LPIAC"). The LPIAC meet with the fund manager regularly to review the portfolio and ensure that the investment teams are acting within the parameters of the investment guidelines. The LPIAC provides an open forum for discussion about both financial and sustainable investment drivers of an investment.

Our investors are also kept informed of our activities via quarterly and annual reports. These reports provide an overview of the holdings and any relevant ESG considerations, both positive and negative. To support seamless and engaged reporting to our investors, Gresham House has invested in a proprietary online client portal designed to provide a high-quality reporting and information service to

clients. Investors are therefore able to promptly see fund manager reports, raise any queries and have a central repository for all reporting.

We host webinars, available on demand on our website to all clients, to answer questions that stakeholders may have on the markets and our investing approach. For example, in November 2021, we hosted a forestry webinar during which Olly Hughes, Managing Director of Forestry, discussed the natural capital attributes provided by commercial forestry and provided an update on the Gresham House Forest Growth & Sustainability LP.

We carry out site visits to provide our clients with access to and education on the assets in which they are invested. In 2021, we carried out three Forestry site visits and one Sustainable Infrastructure site visit.

Finally, we collaborate directly with institutional investors to develop investment solutions that support their sustainability objectives. During 2021, Gresham House assisted several institutional investors including the following two examples:

#### **Case Study: Forestry solution for defined contribution pensions**

As an illiquid, alternative asset class, forestry is not a conventional investment for defined contribution pension schemes. A prospective client had set ambitious net zero targets and wanted to use the carbon sequestration benefits offered by forestry to offset the carbon emissions produced elsewhere in their default investment strategy. They approached us to support their ambitions and we worked with them to assess the carbon sequestration and biodiversity benefits of forestry.

#### **Case Study: Place-based investment solution for local authority pension scheme**

Teesside Pension Fund invested in our British Sustainable Infrastructure Fund (BSIF) and wanted to co-invest in an opportunity that offered quantifiable, positive environmental impact within their local authority. Our Sustainable Infrastructure team worked with the client to find an investment opportunity in a waste-to-energy plant that will divert waste from landfill and produce pellets that can be used to replace coal in the cement and steel industries. The client was delighted to invest in a positive impact investment within their local area.

### 4.3 Client Conflicts Policy

At Gresham House, we believe that the effective management of conflicts is critical to our sustainable investment approach and long-term business success. Conflicts, in our business, may arise between the Firm (or its employees) and its clients, or between clients of the Firm.

We define a conflict as a situation where Gresham House, or a related party to Gresham House, is:

- likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- has a financial or other incentive to favour, or compete with the interests of, one Gresham House fund, investor or group of investors over the interests of another Gresham House fund, investor or group of investors;
- carries on the same business as the client;
- receives or will receive from a person other than the client an inducement in relation to a service provided to Gresham House or any of its funds in the form of monies, goods or services, other than the standard commission or fee for that service;
- in acting for a client in one situation compromises its actions or creates a perception that its actions may be compromised in acting for another client.

We have a robust conflicts of interest policy which describes the approach of Gresham House to identifying and managing conflicts. Our policy identifies a number of areas as inherently likely to give rise to a conflict:

- outside business interests and business suitability;
- interests in competitors, clients or suppliers;
- gifts and inducements; interests in transactions and personal account dealing;
- investments in managed funds;
- diversion of business opportunity;
- outside employment and business interests;
- employee loyalty; and
- remuneration incentives; and use of third-party research.

We have controls to manage the risks arising from these areas of potential conflict including:

- Annual declarations of outside business interests by staff
- Controls around the receipt or offer of gifts and hospitality
- Controls around personal account dealing by staff and connected persons
- Establishment of objective protocols for asset allocation between funds
- Design of remuneration structures that align the interests of investors with investment managers

Where we have, or may have, a conflict of interest with a client, we take reasonable steps, acting in compliance with applicable law and regulation, to ensure fair treatment of the client. Where we believe that the arrangements in place are not sufficient to ensure with reasonable confidence that risks of damage to the interests of the client will be prevented, we will inform the client of the nature or source of the conflict and the steps taken to mitigate those risks.

Responsibility for the policy rests with the senior management of the organisation. This policy is reviewed at least annually. A Conflicts Committee is also in place with senior managers from compliance, legal, finance and operations. Conflict matters are brought to the attention of the committee via a dedicated email address. The Committee considers the issues and advises the relevant notifier or team accordingly. The objective is always to ensure the fair treatment of all clients.

All identified conflicts are maintained in the Conflicts Register by the Head of Compliance. The Conflicts Committee also ensures that mitigation controls for identified conflicts remain effective on an ongoing basis.

### ***Example: Potential supplier relationship with investee company***

In 2021, the UK Public Equity division started its search for an ESG data provider to enhance its sustainable investment process. One potential provider identified was an investee company of the team.

To ensure compliance with the conflicts policy, the team took several steps:

- The Conflicts Committee was made aware of the potential conflict
- The team brought in the Sustainable Investment Team to provide independent input to the provider selection process
- The team identified several alternative providers to ensure a fair selection process
- The team established the key outputs required from the ESG data provider and then initiated a process of meeting with all providers to assess their ability to meet the requirements, the quality of their offering, and the cost. In this way, the team aims to identify the best provider supporting a high quality approach that will provide enhancement of the investment process and reporting for its clients.
- As at time of writing no selection had been finalised. However, this process demonstrates that the team was committed to a fair selection process, independent of their investment holding. If the team decided to select the investee company as the provider, they would commit to the relationship not impacting their investment decision making. Investment decisions will always be in the best outcome of the client, and not tied to any other relationships the team has with an investment. In addition, the Conflicts Committee would monitor the conflict on an annual basis.

## 4.4 Appropriate time horizons

The investment time horizon of our funds is driven by the asset classes in which we invest and investment objectives of our clients. The vast majority of our clients seek long-term, capital appreciating investments and our funds and portfolios are designed to meet these requirements.

The table below summarises the time horizons for each asset division:

Asset division	Investment time horizon
Public Equity	3-5 years
Private Equity	5-7 years
Sustainable Infrastructure	8-10 years
Forestry	20+ years
New Energy	25+ years
Housing	30+ years

We share details on the chosen investment period of each fund, and what this means for investors in the objectives section of our fund documentation, including prospectuses and the Key Information Documents.

## 5 Our people

Our people are our greatest asset and are integral to all that Gresham House achieves. We recognise that our people are the foundation of our success and we aim to create a culture where they can thrive.

All our people are expected to embody our purpose and culture which includes our commitment to sustainable investment, including stewardship activities. The investment teams are responsible for implementing our approach to sustainable investment led by the Sustainability Executive Committee (see section 6.1 for further details) and with the support of sustainable investing representatives for each division and the Sustainable Investment Team.

The Sustainable Investment Director was hired in 2020 to lead the further development and integration of our existing sustainable investment policies across both the Real Assets and Strategic Equity divisions. In 2021, this team was expanded with two new hires to support Gresham House's ambitions to be a leader in sustainable investment. The Sustainable Investment Director has direct access to the very highest levels of Gresham House and reports directly into a member of the Group Management Committee.

### 5.1 Performance management

To lead a workforce committed and incentivised to support Gresham House's Sustainable Investment strategy, all employees, including our Group Management Committee, are required to have a sustainability related performance objective in their annual objectives. All employees will be assessed on these objectives as part of end of year review, and pay and bonuses will reflect if individuals have met the expected outcomes.

Involvement in this area will vary by type of role but all employees across the different departments, including back office, are expected to consider sustainability and how it impacts the work they do on a day-to-day basis.

Below are examples of individual sustainable investment objectives across Gresham House:

1. Forestry - develop partnership with third parties to offer carbon measurement services of all forestry investments to clients
2. Housing - support Housing Team efforts in improving EPC ratings and path to net zero
3. Human Resources - ensure sustainability is incorporated and evident (where appropriate) in all HR policies and procedures
4. Institutional Distribution - enhance knowledge of regulatory changes related to sustainability, including EU Taxonomy, SFDR, upcoming UK regulation
5. Private Equity - ensure annual ESG planning is introduced at Board level within all personal portfolio assets
6. Sustainable Infrastructure - familiarise yourself with newly developed impact framework and build this into new acquisition process

## 5.2 Training and development

Gresham House is committed to the development of our people, professionally and personally, which includes training on sustainability and stewardship.

Significant time has been dedicated to furthering sustainable investment awareness and knowledge of our staff throughout 2021, particularly for new joiners or teams acquired into the business. Training sessions throughout the year have included:

- Carbon footprint training for the whole business
- Private Equity team, including Mobeus VCT team, training on the sustainable investment process
- Inclusion of sustainable investment in the new joiner induction process

Some of these training sessions were provided in partnership with external consultants.

## 5.3 Diversity, equity and inclusion (DEI)

At Gresham House, we believe in the power of a diverse and inclusive team. We believe that diverse and inclusive teams support better investment decisions and investment performance. In 2020, Gresham House put in place a [Diversity, Equity & Inclusion policy](#) to formalise this philosophy which details our DEI focus, definitions, responsibilities and commitments:

- To create an effective and happy team - a cultural objective of Gresham House
- To recognise incorporating diversity of views as contributing to a performance-based culture and success in the creation of long-term shareholder value
- To create an environment in which individual differences and the contributions of all team members are recognised and valued
- To create and promote a meritocracy in which performance and results are the determinant of recognition and reward. To create a working environment that promotes dignity and respect for every employee
- To not tolerate any form of intimidation, bullying, or harassment, and support those that have been discriminated against
- To promote equal opportunity in the workplace, and make training, development, and progression opportunities available to all
- To appropriately review all our employment practices and procedures to ensure that they are consistent with our cultural values

Our approach aims to create an inclusive work culture, where diverse teams and individuals thrive to help us achieve our mission, through key actions:

- Building awareness across the organisation
- Tackling unconscious bias through education and training
- Instilling inclusive leadership in managerial practices
- Supporting under-represented groups



Our aim is to ensure that all employees and candidates are given equal opportunity and to ensure our business is a true meritocracy.

## ***Developments of our DEI initiatives***

Key initiatives we worked on during 2021 included:

- Establishing the Gresham House **DEI Committee** in May 2021 which is tasked with establishing an effective DE&I framework, evolve and implement relevant initiatives and listen to employee feedback.
- Developing our first **DEI strategy**, defining the internal behaviours and actions to be implemented to improve diversity, equity and inclusion across the company to support our corporate objectives. The DEI strategy is an integral part of the GH25 business strategy and beyond and establishes a range of objectives we want to achieve. The strategy covers six core focus areas:
  1. Talent Acquisition
  2. Recruitment & Selection
  3. Career Development
  4. Training
  5. Recognition
  6. Culture
- We worked with **#10000BlackInterns** to provide opportunities to individuals who wanted to gain experience of working in financial services. We are currently in discussions with the group to continue to run this programme in 2022.
- Although we are not yet of the size to legally be required to complete and publish a full **Gender Pay Gap Analysis**, we want to ensure we monitor and address any pay gaps for our employees and have therefore undertaken an internal gender pay gap analysis. This analysis fed into the 2021 end of year salary and bonus review process.
- To better manage DEI across our business, we first need to understand and assess our current baseline. We put in place a **new HR system** and encouraged all staff to complete various DEI data points. Whilst this remains on a voluntary basis, we were pleased with the number of individuals that chose to include their data. This data will be crucial for us to be able to complete analysis on aspects such as gender and ethnicity.

Looking forward, we have identified potential barriers to entry in our industry and how we may seek to address them which we will be working on throughout 2022 and beyond. Finally, we are working to identify an external DEI partner with expertise to help us steer our DEI Committee and to implement our DEI Strategy.

## 2021 summary and achievements

- Women made up 38% of employees, an increase from 26% in 2017
- 32% of senior management roles held by women<sup>1</sup>
- 25% of Board positions held by women<sup>2</sup>
- Hired two interns through the #10000BLACKINTERNS initiative which aims to offer Black students across the UK an opportunity to kick start a career in investment management through paid internships.

## 5.4 Employee engagement

In 2021, we conducted our second employee engagement survey called 'We Are Listening'. The purpose of the survey was to give our people the chance to provide feedback on their experience working at Gresham House.

We engaged a specialist third party company to run this survey which was directed at all employees. Responses were then compared to a benchmark of similar entities where these exist, and the results of the survey were used by the Group Management Committee to determine where we are succeeding and areas that need to be strengthened.

### Highlights

91% of our staff engaged with us for the completion of our recent employee survey.

96% of our staff would advocate Gresham House as a good place to work.

84% believe Gresham House acts responsibly in all its business dealings.

85% are confident Gresham House will be a market leader in sustainable investment by 2025.

The final statistic shown above is a testament to the commitment of our senior management team to communicate the importance of ESG extensively across all parts of our business. Improving the outcome of this question and elevating our approach to stewardship across our divisions will form a part of our work throughout 2022 and as we target meeting our objectives for GH25.

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<sup>1</sup> The percentage of women holding senior positions in the business, where senior positions are defined as the Group Management Committee, GHAM Board or unit heads.

<sup>2</sup> The Board currently comprises two Executive and six Non-Executive Directors (including one alternate Director). Sarah Ing, the alternate Director, will be appointed as a Non-Executive Director and Audit Committee Chair of the Company following the retirement of Richard Chadwick at the conclusion of the Company's 2022 AGM bringing the Board gender split to 5 males and 2 females = 29%.

## 6 Delivery of our sustainable investment approach

At Gresham House, our approach to sustainable investment is embedded across our business and involves ESG analysis, active stewardship, and outcome measurement.

Our commitment is demonstrated through the integration of sustainable investment practices across our strategies, through our proactivity in seeking to make a positive social, economic or environmental impact alongside delivering strong financial returns and by being a responsible and ethical employer.

Our approach to sustainable investment across each asset division is based on five core components:

- 01 Sustainability governance structure
- 02 Sustainable investment commitments
- 03 Sustainable investment policies
- 04 Sustainable Investment Framework (SIF)
- 05 Asset class specific ESG Decision Tools

We also are also members of a range of industry bodies which inform and support our sustainable investment approach, and work with some service providers who develop and implement certain aspects of our sustainable investment activities.

Further detail on our approach to sustainable investment, including stewardship, is available in our Annual Report and Financial Statements, which can be found [here](#), and our Sustainable Investment Report, which can be found [here](#).

### 6.1 Sustainability governance structure

To ensure high-quality governance of our sustainability strategy, we have also developed a network of sustainability-related committees, which oversee our work. In 2021 we made two major improvements to ensure we achieve our sustainability ambitions:

1. The Board established a new **Sustainability Committee** to provide oversight and accountability for our approach to sustainability across our operations and investment practices.
2. The Group Management Committee established the **Sustainability Executive Committee** which aims to elevate responsibility for sustainability to executive level, reflecting the importance and materiality of sustainability to the business.

“Evolving our previous Sustainable Investing Committee into the Sustainability Executive Committee ensures a greater representation of the senior leadership team across the business. Our aim of this change was to ensure that sustainability related work and objectives do not fall to the same individuals, and instead senior leadership drive change whilst ensuring all staff across the Group take responsibility for the delivery of our corporate sustainability goals.”

**Rupert Robinson - Managing Director**

## Sustainability governance structure



## Sustainability Executive Committee



**Rebecca Craddock-Taylor**  
Director, Sustainable Investment and Chair



**Peter Bachmann**  
Managing Director, Sustainable Infrastructure



**Lizzie Darbourne**  
Group Marketing Director



**Bevan Duncan**  
Managing Director, Strategic Equity



**Heather Fleming**  
Managing Director, Institutional Business



**Andrew Hampshire**  
COO and CTO



**Geoff Lambert**  
Head of Compliance



**Rupert Robinson**  
Managing Director, Gresham House Asset Management

## 6.2 Sustainable investment commitments

We will endeavour to:

- Take steps to consult and understand the views, concerns, and ambitions of our stakeholders in seeking sustainable outcomes from the investments we are involved in.
- Integrate environmental, social, governance and economic benefit considerations into our selection, evaluation, governance, and engagement processes across the lifecycle of each investment. We drive rigour and consistency in this by applying our sustainable investment framework (please see next page) and system, including clearly defined processes and expert tools and methods.
- Ensure our team understands the imperative for effective ESG management and is empowered and equipped to carry this out through management support and training.
- Conduct regular monitoring of ESG risks, opportunities, and performance in our investments and over time, reporting to our investors.
- Conduct our business activities in line with the UN supported Principles for Responsible Investment, including an annual report of our progress toward implementation.

## 6.3 Sustainable investment policies

Gresham House has developed and published an overarching Sustainable Investing Policy ([link](#)) along with asset specific sustainable investment policies<sup>1</sup>. These policies describe our approach to sustainable investment and highlight our commitments to investing sustainably while meeting our overall business objectives.

### Policy Structure



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<sup>1</sup> All asset class policies can be found at the bottom of our Sustainable Investing webpage: <https://greshamhouse.com/sustainable-investing/>

The table below sets out the information included in our policies.

Policy	Content
<b>Gresham House Sustainable Investing Policy</b>	<ul style="list-style-type: none"> <li>Our sustainable investment commitments (see previous page).</li> <li>How our business mission is linked to a commitment to sustainable investment.</li> <li>The process followed to deliver our approach to sustainable investment including our commitments to operating as a sustainable business.</li> <li>An introduction to our Sustainable Investment Framework (see next page).</li> <li>The Sustainable Investment Team will assess adherence to the commitments set out in our Sustainable Investing Policy on an annual basis and report progress to the Sustainability Executive Committee and Board.</li> </ul>
<b>Asset class sustainable investment policies</b>	<ul style="list-style-type: none"> <li>Details how the asset division's investment strategy meets our group wide sustainable investment commitments.</li> <li>Potential contributions of the investment strategy to the UN Sustainable Development Goals.</li> <li>Application of each theme our Sustainable Investment Framework to the investment strategy.</li> <li>Each asset division head reports to the Group Management Committee on how they are meeting the statements set out in their specific sustainable investment policy.</li> </ul>
<b><u><a href="#">Engagement &amp; Voting Policy</a></u></b>	<ul style="list-style-type: none"> <li>Roles and responsibilities in our engagement and voting processes.</li> <li>The purpose of engagement activities and how it fits into the investment process.</li> <li>How proxy services are used to deliver votes and how voting decisions are reached.</li> <li>Details how conflicts of interest are managed and how we will provide transparency and disclosure.</li> </ul>

### Policy updates in 2021

All Sustainable Investment (SI) Policies have been updated to reflect the new sustainability governance structures.

Individual asset class SI policies have been updated to reflect updates to the division's sustainable investment process, as relevant. For example, the Forestry SI Policy has been updated to include the Gresham House Forest Charter. The New Energy SI Policy has been updated to explain how social issues, such as supply chain risks, are integrated into the process.

The Engagement & Voting Policy was updated to address environmental and social factors more explicitly, in addition to governance factors.

## 6.4 Sustainable Investment Framework

We have developed a Sustainable Investment Framework (SIF), incorporating ten ESG themes - shown on the next page. These themes were derived from the ESG materiality assessment we undertook as part of our strategy development process, and are considered to be the most material factors for our asset divisions.

The SIF is used to structure analysis, monitoring and reporting of ESG issues and opportunities within the lifecycle of our investments as an aid to more consistent integration. The themes are used by the investment teams to identify a broad range of ESG risks which may materially impact proposed transactions, as well as directing our focus towards more sustainable outcomes.



Section 8 describes how the SIF is applied across our investment strategies later.

## 6.5 ESG Decision Tools

Gresham House engaged a specialist consultant to develop an ESG Decision Tool (the 'Tools') for each asset class which supports the investment teams in implementing the commitments made in the sustainable investment policies.

These Tools has been in place for all divisions in 2021 except for housing. Due to the heterogenous nature of the housing division's assets and strategies, development and implementation of the tool was more detailed than anticipated. However, the Tool is expected to be completed shortly and will be rolled out for use imminently.

The Tools have also been extended to newly-acquired businesses Appian Asset Management and Mobeus Equity Partners during 2021 and we expect these to be fully embedded in their investment processes from 2022.

The ten themes in the Sustainable Investment Framework are used as the basis for the investment team's ESG Decision Tool and several sub-factors are considered under each broader theme.

The purpose of the Tools is to support the investment teams in identifying potential, material ESG risks that need to be managed and mitigated, and to help shape the due diligence process for individual companies prior to investment. The Tools also provides a way of summarising material ESG issues, which can then be tracked and monitored over time, and include actions that can be taken to mitigate those risks throughout the holding period.

The Tools will not tell the investment teams whether to invest or not, instead they aim to provide a rational and replicable assessment of key ESG risks which should be considered prior to investment, and to help rank the significance of each risk. It is up to the investment teams to decide whether or not they are sufficiently comfortable with these risks to proceed with an investment.

Importantly, the output of the Tools can be used by the investment teams to identify necessary stewardship activities including setting engagement priorities. Based on the risks and opportunities that are highlighted, it prompts investment teams to identify core engagement topics, proposed actions, deadlines and to allocate responsibilities.

We are committed to ensuring that 100% of all new investments utilise these Tools. Outputs of the Tools are considered by the investment committees of each fund in signing off new investments.

## 6.6 Industry bodies

We believe in playing an industry leadership role in supporting and promoting sustainable investment, and this includes participation in several industry bodies.



We became signatories to the PRI in 2018 and have aligned our sustainable investment commitments with these principles. The PRI believes that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society. The PRI works to achieve this sustainable global financial system by:

- encouraging adoption of the principles and collaboration on their implementation;
- by fostering good governance, integrity, and accountability; and
- by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.

Signing up to the internationally recognised principles, which are voluntary and aspirational, enables organisations to publicly demonstrate their commitment to responsible investment and be part of a growing global community that is driving real change to contribute to a better world for all.

We submitted our first report in 2020 and our scores for each module are shown below. We are awaiting results from the 2021 PRI assessment due to delays at the PRI.



### UK Sustainable Investment and Finance Association (UKSIF)

We are a member of UKSIF, who work closely with government departments, parliamentarians, and regulators to influence policy development that supports the growth of sustainable finance. They also help influence attitudes, accessibility and availability through industry and mainstream campaigns.

On policy matters, UKSIF want to see laws, regulation and guidance that promote long-term, sustainable wealth creation. They therefore work to support and influence policymakers, regulators, financial services trade bodies and other key decision-makers on sustainable finance issues. On investment and industry matters, UKSIF collaborate on industry initiatives such as public statements, share industry best practice and report on industry progress.

On public matters, UKSIF help encourage the public to consider sustainable finance and investment options by using traditional, digital, and social media and events to raise awareness of the benefits and simplify the steps to take.

In 2021, at UKSIF's request, we became a member of their Green Taxonomy Working Group. The role of this group is to advise UKSIF's policy positions at meetings of the Green Technical Advisory Group. The group meets each quarter to provide feedback on issues raised at GTAG meetings and provides written feedback from select members of the sustainable finance community.

We contributed to this industry body by speaking at two UKSIF conferences in 2021 - one session discussed the Energy Transition and the second discussed sustainability in Private Equity. In addition, we have also taken part in several roundtable discussions on the UK's Sustainability Disclosure Requirements (SDR) and investment labels, feeding in to UKSIF's response to the FCA's discussion paper.



### **London Stock Exchange's (LSE) Green Economy Mark**

The Green Economy Mark recognises listed companies deriving 50% or more of their revenues from environmental solutions. It makes less obvious environmental solutions more visible and enables investors to identify an investible universe of green economy equities, enabling a broad exposure, rather than a focus on one area, such as renewable energy infrastructure.

The LSE Green Economy classification and Mark is available to all equity issuers on all segments of the Main Market and AIM that meet the relevant criteria. It facilitates visibility and investment by addressing the information gap around what constitutes commercial activity relating to environmental solutions. Through its consistent application across LSE's markets and segments, the Green Economy Mark and Green Revenue tracking improves visibility to investors and other stakeholders that are interested in Green Economy activities.

Gresham House plc, Gresham House Energy Storage Fund, and the Gresham House Renewable Energy VCTs have all been awarded the LSE Green Economy Mark.



### **Pensions for Purpose**

We play an active role in Pensions for Purpose, a collaborative industry initiative that seeks to have industry impact through the promotion of a better understanding of impact investment by effectively sharing news stories, blogs, case studies, academic research and thought leadership papers and acting as a first port of call for journalists seeking comment on impact investment-related issues.

In 2021, our Director of Sustainable Investment and our Managing Director of Sustainable Infrastructure ran two educational sessions for pension trustees and their advisors. One session was focused on discussing why we cannot rely on one solution, such as renewables or offsetting, to achieve the ambitions of the Paris Agreement. The second session covered how positive impact could be achieved whilst meeting investors' return objectives in infrastructure investment.

THE

GOOD

ECONOMY

## The Good Economy Equity Impact Project

The Good Economy and Big Society Capital have created the Equity Investor Impact Reporting Project, a collaboration of investors and other market participants developing a common impact reporting framework for equity investors in social and affordable housing. The project working group is co-creating a framework and tools to measure, manage and report on the positive impacts of equity investment in social and affordable housing and mitigate any negative impact risks.

In 2021, alongside our Housing team, we joined the Equity Impact Project (EIP), led by The Good Economy and Big Society Capital. These workshops aim to develop a set of globally aligned standards for best practice management, measurement and reporting of impact for equity investments in social and affordable housing.

The input of the workshops will help to develop and evolve the current framework that was published in July 2021 such that it creates a product that helps to encourage investment flows that make a positive contribution to delivering quality, affordable homes to people in need.

### Wider industry contributions in 2021

A range of Gresham House employees have contributed to many events over the past year, which have been attended by a variety of stakeholders, including institutional and retail investors, specialist groups and advisors. These events have been via contributions to panel discussions and also full presentation sessions. These include:

**15** sustainability focused educational events Gresham House experts contributed to in 2021 as panel experts or event speakers

**c.90** sustainability focused articles or comments from Gresham House experts included in the press in 2021

## 6.7 Engaging service providers

Gresham House works with specialist service providers to support and enhance our work in sustainable investment and stewardship activities. During 2021, we worked with the following services providers:

1. We continued to engage a specialist consultancy to support the design and evolution of our ESG Decision Tools, specifically on the development of the Housing tool. We also worked with them to evolve the Forestry ESG Decision Tool to update requirements to reflect a new commitment to meet International Finance Corporation (IFC) exclusions.
2. We engaged two carbon data providers to measure the carbon footprint of our operations and of our assets. The data calculated, will inform our stewardship activities for our investments and highlighted improvements we can make as a business. We will be continuing work with these providers in 2022 to improve the quality of data and develop a process to easily collate the necessary data to allow regular carbon footprint reporting and monitoring, as well as set climate targets.
3. We continued to engage a well-known firm to execute voting for the UK Public Equity Team.

We apply thorough selection processes for engaging service providers, two examples are detailed in the boxes below.

### **Case Study: Selecting carbon footprint consultants**

To select the providers to calculate the carbon footprint of our operations and investments, we sent a request for information to range of different providers. The responses were assessed by the Director of Sustainable Investment and a short list was identified. The short-listed providers were then asked to the present to the GMC and the individual providers were selected.

The continued appropriateness of these providers will be reviewed, however as we only started working with them in H221, we will likely continue these relationships for the next eighteen months before a formal review is conducted.

### **Case Study: Selecting public equity data providers**

Another example of selecting service providers has been to identify an ESG data provider who can support the UK Public Equity Team. Working closely with the Sustainable Investment Team, the team identified the key requirements of the provider. Given the small company investment focus of the team, it became apparent that it would be more challenging to identify suitable providers due to restrictions around data availability. The team met with four potential providers to assess their service proposition and cost.

The team is in the final stage of selection but will ensure the selection of the most appropriate provider to enhance its sustainable investment processes. The ESG data should not only provide clients with an alternative “sustainability” view of their investments going forward but should enhance the team’s ESG risk and opportunity assessment as part of investment analysis.

## 6.8 Monitoring and assurance

Gresham House is committed to continuous improvement in the execution of its sustainable investing approach. We put in place various new processes during 2021 that are being incorporated into investment processes across the business.

We started applying a three-tier approach to ensure our investment teams, on a consistent basis, comply with our Sustainable Investment Framework (SIF) and the implement the ESG Decision Tools in their approach effectively. The three stages are as follows:

### 01 Investment level

Every investment committee (IC) paper will include a section on ESG and the outcomes of the ESG Decision Tool. This ensures integration of ESG considerations across the investment process including integration into investment committee processes.

### 02 Risk Committee

This Committee, reporting directly into the Group Management Committee, reviews the risk to each fund in line with the requirements of the Alternative Investment Fund Managers Regulations. Risk papers shared with the Risk Committee will include a new section covering the key ESG risks that have been identified over the last quarter. Any explanation of how these risks will be managed or mitigated will also be included.

### 03 Asset division consistency

The Sustainable Investment Team has oversight of the outputs of the ESG Decision Tool and the IC papers to assess how the framework is being complied with. Regular ESG Audits are carried out on a selection of investments for all divisions to assess the quality and consistency of the ESG Decision Tool completion and IC paper content. Results are reported to the Sustainability Executive Committee for review and actions will be identified following the audit for relevant divisions.

The purpose of these checks is to allow a clear audit process which ensures we are meeting the commitments we have set out in our sustainable investment policies. Any issues will be escalated to the Sustainability Executive Committee and, where required, the Group Management Committee.

As the business grows, further support from external parties may be sought to provide additional assurance on the effectiveness of key controls in our sustainable investment approach.

In addition to the above process, Gresham House is committed to disclosure and transparency for our investors and other stakeholders. We publish an annual Sustainable Investment Report which provides case studies and insights into our application of sustainable investment across our asset divisions.

To ensure our stewardship reporting is fair, balanced and understandable, we provide information for all asset classes equally and aim to demonstrate progress as well as successes. We will further enhance disclosure on the sustainability performance of all assets by measuring Key Performance Indicators (“KPIs”) on sustainability factors and disclose this to clients from next year.

## 7 ESG risk management

### 7.1 Governance Framework: Our enterprise risk management framework

Our enterprise risk management (“ERM”) framework sets out our risk governance structure, risk appetite and risk assessment processes, policies and procedures, periodical risk reporting and assurance arrangements.

The identification of risks is linked to the strategic objectives of the Group as a whole and supports business processes. Our risk identification process delivers a defined risk taxonomy which is used to establish the impact and likelihood of a risk materialising and of the exposures the Group faces. Our risk prioritisation reflects the efficient application of resources within the Group.

Our sustainability risk management model is being integrated into our ERM framework taking both a top-down and bottom-up risk management approach and is based on selecting and assessing sustainable investment risks and opportunities over the short, medium, and long-term using our ESG Decision Tools.

The Gresham House Board is responsible for the effective management of ESG risks and opportunities across the Group. In 2021, we revised the sustainability governance structure and created a Board level Sustainability Committee to oversee our Corporate Sustainability Strategy and ESG risks specifically. New risks are identified based on industry or market wide developments, or specific developments identified within Gresham House.

A new risk identified under our ERM framework in 2020 was the risk of adverse impact on our operations arising from climate change. In 2021, this continued to be a focus for us, and we published our first TCFD disclosure in our 2021 Annual Report with a section specifically addressing climate risk management. For the purposes of our ERM framework, we assess climate-related risks and opportunities as part of the broader “ESG risk”.

We have conducted internal research aimed at setting out climate-related risk categories and sub-categories and to develop our corporate level climate risk assessment. These risks will be incorporated into our risk taxonomy and form part of our ERM risk assessment processes, controls, mitigation strategies and risk reporting. We expect climate risk to become an independent risk in 2022 at a corporate level and additional risk assessments to be completed at an asset level.

During 2021, the global pandemic continued to impact the risk environment across the financial sector with the potential for adverse impacts on our employees’ wellbeing and our strategic objectives linked to staff absences, labour shortages and supply chain disruptions alongside increased cyber-attacks. These risks and our approach to managing them are described in more detail in the effective risk management section of our [2021 Annual Report](#).

### 7.2 Climate change

We are mindful of the impact of climate change on the sustainability agenda, which we regard as a critical priority for all businesses to play their part in addressing. Climate change is arguably the biggest risk to the proper functioning of financial markets across the globe. We also see climate change as an opportunity. Supporting the transition to a sustainable, low-carbon economy requires substantial capital to achieve green and broader sustainability objectives. At Gresham House, we are committed to leverage the opportunities climate change presents and invest in ways that have a positive impact on the environment.

#### ***Climate-related opportunities for our investments***

Investments in several of our asset classes aim to create tangible positive action towards addressing climate change. Many of our Real Asset investments aim to provide additionality by constructing new assets that positively contribute to climate resilience and mitigation instead of buying existing assets, adding to the aggregate and supporting the decarbonisation of the UK’s economy.

Examples of our investment strategies and their involvement in projects that support the green agenda include:

- Our **New Energy** division invests in wind, solar and battery energy storage assets which together are transforming the energy sector from fossil fuels dependence towards one dominated by renewable energy.
- Our **Forestry** division provides opportunities to invest in assets that produce resources that reduce reliance on high-emitting industries, such as cement and steel, as well as opportunities to invest in forests that generate carbon credits producing a tool to offset emissions.
- Our **Sustainable Infrastructure** division seeks to invest in various sub-sectors that we expect to positively change the way we live, including waste solutions diverting waste from landfill and creating new sources of energy, and agricultural technology that produces food efficiently but with potentially less impact on our environment.
- Our **Housing** division invests in affordable housing and shared ownership projects that are energy efficient wherever possible.

### Climate-related risks for our investments

Whilst there are material opportunities for many of our assets related to climate change, there are also physical and transition risks to be considered. Climate-related risks vary materially according to the type of asset we invest in.

These include:

- **Physical risks** - disruption to assets' operations or growth due to extreme weather events, changes in temperature, water stress, pollution and biodiversity loss. These risks are particularly relevant to our Forestry assets.
- **Transition risks** - policy shifts such as climate-related regulations and the UK's net zero commitments, market risks linked to the value assigned to certain assets or demand for products or services and technology risk linked to the potential displacement by lower carbon alternatives. These risks are relevant to many assets in some form but in particular to those materially affected by climate-related policy and demand for low carbon solutions such as New Energy assets.

We require climate-related risks to be assessed as part of the investment process for all investments. This is done through the implementation of asset-specific ESG Decision Tools which require investment teams to identify how material particular environmental risks, including climate change, are to the investment. The ESG Decision Tools ask about various environmental risks including, but not limited to, physical climate risks, policy risks – such as changing consumer behaviour – and regulatory risks.

Outcomes of the ESG Decision Tool are used by the investment teams to identify actions that must be taken to mitigate and monitor any material risks on an ongoing basis. This includes the identification of engagement topics to either reduce risks and enhance opportunities for investments.

### Climate change strategy for our investments

We developed our Corporate Sustainability Strategy in 2021 which identified climate change as a priority area for our investments.

To effectively manage risks related to climate change for our investments, we have committed to:

- Set science-based targets on climate change for each division
- Calculate and report the carbon footprint of all investments
- Assess key climate related risks across our investments and develop a process to reduce exposure or mitigate these risks where possible
- Engage with investments across all divisions to support measurement of carbon footprint and establishment of climate change strategies
- Expand climate data reported for all funds, including climate accounting and scenario analysis
- Develop a suite of investment strategies that support clients net zero and climate strategy requirements
- Report fully in line with TCFD recommendations

### ***Actions in 2021***

- We began the alignment and reporting process with the Task Force on Climate-related Financial Disclosures (TCFD). In doing so we consider climate-related risks and opportunities to our investments, and how these are embedded in our operational approach to the four TCFD thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.
- We appointed Carbon Responsible to calculate our operational emissions and also Carbon Trust to calculate the emissions of the underlying investments in the funds we managed in line with the Partnership for Carbon Accounting Financials (PCAF). This project is ongoing, and we expect to provide reporting to clients during 2022.
- Engagement related to climate change risks and opportunities in 2021 focused on engagement with market stakeholders rather than specific investments. For example, the Forestry team engaged with the Woodland Carbon Code and its peers to drive better outcomes relating to the creation of carbon credits through woodland creation and, we hope, incentivise activities that enhance carbon sequestration.

### ***Next steps***

- We intend to develop a net zero target and timeline for our investments in 2022 and to submit these for accreditation to the Science Based Targets initiative (SBTi) to ensure they are aligned to a 1.5-degree transition pathway.
- We are aiming to develop a climate risk assessment for each asset class. The climate-related risks for forestry will differ significantly from the climate-related risks for our private equity portfolio for example. Our Sustainable Investment team will be working with each division to develop a climate risk and opportunity assessment.
- We intend to implement climate scenario analysis over the next few years and will be considering scenarios from a range of international frameworks. We aim for this to include considerations around the intersection between expected climate impacts and social impacts of physical risk, and we will consider inputs around the 'just' transition.
- We are developing an engagement strategy for our Strategic Equity assets. This includes a thematic focus on climate change-related engagement for all assets to enhance understanding of physical and transition risks, regulatory requirements related to climate change, and the development of policies and processes to manage climate risks at investee companies.

### ***Climate-related risks and opportunities for clients***

We also consider how we can support our clients to mitigate their climate-related risk through the investment solutions we offer, and how we can offer better outcomes for our clients through disclosure. Most of our institutional clients approach us to help them meet their environmental and financial objectives. Our work to calculate the emissions of the underlying investment in the funds we manage will provide our clients with important measures they can use to calculate the total emissions from their investment portfolios.

We hope to evolve our climate related reporting for our clients over time.

### ***Effectiveness of climate risk processes***

We will continue to assess the effectiveness of our risk management processes for our investments once they are developed further and once we have better data to monitor these risks.

We do believe however that our strategy to invest in solutions that contribute to climate change can positively contribute to mitigating this systemic risk. We are also confident that industry engagement will help to drive forward better system management of these risks.

## **7.3 Our response to the Covid-19 pandemic**

The Covid-19 pandemic continued to impact businesses and people across the world in 2021. Protecting the safety and wellbeing of our employees continued to be our priority during this period and their commitment has ensured that we were able to maintain business as usual.

Gresham House continued operating in accordance with Government guidelines and through our remote working procedures have maintained employees' safety and wellbeing, as well as ensured business continuity.

The group also continues to ensure annual business continuity plan maintenance and testing. This ensures resilience of the Group's and critical third-party systems.

### **Colleagues**

We saw the benefits that moving to a blend of remote and office-based working offered our employees and introduced a new hybrid working model that incorporates the best elements of both. This has received positive feedback from employees, with over 64% of employees either agreeing or strongly agreeing that their views had been taken into account for our approach to hybrid working and supports our Diversity, Equity and Inclusion strategy. This is also viewed favourably during the recruitment phase, as our hybrid working policy has been seen as supportive of enabling work-life balance.

Our teams have delivered growth and performed well consistently when working remotely, ensuring smooth business continuity.

### ***The impact of the Covid-19 pandemic on market activity***

2021 continued to see volatility in financial markets as a result of COVID-19 which impacted business growth and investment valuations. During periods of market volatility risk, the Group increased its monitoring activities, especially across portfolios which may be impacted by the effects of the global pandemic.

### ***Effectiveness of Covid-19 risk management***

Despite continued challenges from the COVID-19 pandemic in 2021, we demonstrated the quality of the business and the team, operating in an agile manner to deliver returns for shareholders and clients. In our recent employee engagement survey, 85% either agreed or strongly agreed that Gresham House has been reasonable in its endeavours to provide a Covid safe environment.

## **7.4 Cyber risk**

Worldwide cyber risk has increased considerably over the past two years, driven in part by increased digitalisation throughout the Covid-19 pandemic. The significant increase in the use of digital tools has coincided with the increased sophistication of threats from the application of emerging technologies such as artificial intelligence and machine learning.

For Gresham House, cyber risk is the risk that the Group's systems are accessed by unauthorised persons and client data is breached. This could lead to business continuity events, corrupted or lost data, operational interruptions, compliance breaches, dissatisfied clients or suppliers, and reputational damage.

We manage cyber risk as part of the operational resilience of our overall security plans. In 2021, cyber risk was mitigated through the application of appropriate systems and controls and employee training.

### ***Mitigation controls***

Gresham House has a number of processes in place to reduce and mitigate cyber risk:

- From a top-down basis, the Operations Committee address operational efficiencies with regular reporting to the board.
- The Group engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties.
- Annual IT audits are conducted by independent third-party IT security providers, including phishing and penetration testing and ongoing cyber security monitoring with monthly reports. Restricted access to systems is in place.
- Refresher training on data protection and cyber security, including cyber fraud prevention.
- Annual business continuity plan maintenance and testing to ensure resilience of the Group's and critical third-party systems.
- Maintenance of ISO 9001 certification ensuring documentation and consistent application of processes across the Group.

## Effectiveness of cyber risk mitigation strategy

Over the last 12 months, Gresham House has logged the following with regards to cyber security:

- 2.6mn screened events, such as individual log ons;
- 1.7mn screened events relating to security;
- 156 potentially malicious events with the potential to cause harm;
- 0 serious cyber security incidents/threats.

The above demonstrates the effectiveness of Gresham House's cyber risk mitigation strategy. Over the past 12 months, from 2.6 million screened events, 156 potentially malicious incidents were mitigated meaning that there have been no serious cyber incidents.

## Case study: taking a proactive approach to cyber security of our investments

In 2021 our VCT business undertook a project to provide proactive advice and guidance for portfolio companies on cyber security. The team spoke with Gresham House's internal IT support team, external IT solution providers and IT specialists within their network to compile a checklist, guidelines and best practice with regards to cyber security.

By leveraging our in-house resources and broader network, we were able to assemble a list of best practice guidance and resources which were then disseminated across the whole of our portfolio to assist with mitigating the risk of cyber security.

## 7.5 Biodiversity loss

### Failure of processes and systems

Recent reports have shown that the systemic risks linked to biodiversity have increased materially in recent years. Human-induced pressures on the natural world, such as land conversion and the depletion of natural resources, are leading to increased nature-related risks such as nature loss. These nature-related risks could catastrophically destabilize our financial system and present an existential threat to the global economy, given the dependence of our societies and economies on ecosystem services such as providing food, water and fibre and regulating the climate.

For Gresham House, the risk of biodiversity loss is material to all our investments given this dependence of society and economies on natural ecosystems. Biodiversity loss also presents financial and regulatory opportunities and risks for certain investments as regulation aims to address biodiversity loss by mandating biodiversity net gain for certain activities. These factors are particularly material to our Housing, Forestry and Sustainable Infrastructure assets.

### Mitigation controls

We are starting to consider how nature-related risks are managed as part of our overall risk management approach. An initial step to enhance the consideration of nature-related risks and opportunities for our investments has been taken through the creation of a Natural Capital Committee. We also carried out a review of the recent DEFRA Biodiversity Regulation proposal to assess how the Forestry investment team addresses risks related to biodiversity throughout the lifecycle of their investment process including at due diligence stage and as part of ongoing forest management.

We also aim to use our experience in investing in Forestry and habitat banks to educate the market on how investors can invest in and support nature-based solutions. We have participated in webinars and investor events to provide various stakeholders with education on these assets. Moreover, our investment into Environment Bank Limited has seen us co-create a new asset class to serve the nascent biodiversity net gain credit market in the UK. In this way, we believe we will play an instrumental and effective role in supporting the UK financial system to address biodiversity loss and provide solutions to contribute to biodiversity net gain.

In addition, we have identified Natural Capital as a key priority within our Corporate Sustainability Strategy. We will therefore be undertaking a number of actions across our operations as a business, as well as across the investments we make to better understand the impacts and dependencies we have on nature and biodiversity. A big part of this work will be educating our colleagues and other stakeholders on how reliant a well-functioning financial system is on healthy, thriving ecosystems.

## 8 Our approach to ESG integration

Gresham House has a clear commitment to sustainable investment as an integral part of its business strategy. Sustainable investment considerations are applied across the investment process for all assets and involves the integration of ESG factors as well as the application of active stewardship responsibilities.

Our approach to sustainable investment across each asset division is based on the following core components:

1. Commitments and committees (see sections 6.1 and 6.2)
2. Sustainable Investment Framework (SIF) (see section 6.4)
3. Policies and processes (see section 6.3)

The SIF is the core method by which ESG is integrated into our investment decisions. It captures the ten themes we want our investments to be carefully assessed against. The asset class specific ESG Decision Tools build on these themes by supporting the investment teams in identifying potential, material ESG risks that need to be managed and mitigated, to help shape the due diligence process for individual companies prior to investment.

The Tools also provide a way of summarising material ESG issues, which can then be tracked and monitored over time, and include actions that can be taken to mitigate those risks throughout the holding period. The Sustainable Investment Team supports the investment teams in ensuring the ESG Decision Tools are used effectively to deliver the desired outcomes.

### 8.1 Differences across geographies

Most of our assets (92% as at 31 December 2021<sup>1</sup>) are based in the UK, hence our reporting focuses on how ESG and stewardship activities are integrated across our UK assets. Our non-UK assets are Forestry assets in Ireland (1% AUM as at 31 December 2021) and Australia (7% AUM) and are broadly managed in line with our UK assets.

While all our Forestry assets are subject to the commitments set out in our Forestry Sustainable Investment Policy and Gresham House Forest Charter, assets will also be managed in line with regional forestry standards which may have differing requirements. Our UK assets are managed in line with the UK Forestry Standard (UKFS), our Irish assets are managed in line with the Irish National Forest Standard (INFS), and our Australian assets in line with the Australian Responsible Wood Forest Certification System.

We also aim to certify our forests in line with international forestry standards. Most of our forestry assets are certified by the Forestry Stewardship Council (FSC) and some assets, usually in Ireland and Australia, may also be certified under the Programme for the Endorsement of Forest Certification (PEFC). There may be a delay in certification of certain assets following their acquisition however we aim to certify all assets within a reasonable timeframe.

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<sup>1</sup> The percentages refer to total Gresham House plc AUM excluding all GHAM Ireland Ltd AUM.

## 8.2 Strategic Equity

Our UK-based Public and Private Equity teams target superior long-term returns by applying an active private equity approach, engaging with companies, and applying rigorous due diligence and developing a deep understanding of each investment.

The 'G' (Governance) of ESG is the most important factor in our investment processes for UK public and private equity. Board composition, governance, control, company culture, alignment of interests, shareholder ownership structure, remuneration policy etc. are important elements that will feed into the fund manager's analysis and the company valuation.

E and S (Environmental and Social) factors are assessed as risk factors during due diligence to eliminate companies that face environmental and social risks that cannot be mitigated through engagement and governance changes.

We integrate ESG considerations into the lifecycle of each investment as follows:

### 01 Initial appraisal

Identify material ESG matters requiring further investigation during the due diligence stage. If certain risks are unlikely to be sufficiently managed or mitigated, then we may choose not to proceed at this stage.

### 02 Due diligence

The ESG Decision Tool and, where possible, meetings with management are used to assess material ESG risks that need to be mitigated and ESG opportunities that could drive value. Specialised consultants may be used to provide additional information.

### 03 Investment appraisal

A summary of the ESG analysis is included in every Investment Committee submission. Appropriate risk mitigation approaches will be referenced and assurance that the business is open to making improvements is sought.

### 04 Holding period

**Public Equity:** We engage regularly with boards and management teams, focusing on strategic, financial and operational matters, including ESG factors, and consistently use our voting rights.

**Private Equity:** A 100-day post-investment plan will be developed to address shorter term risks uncovered in our due diligence stage. We will then use our position as a board member and active investor to influence management to proactively address longer term risks and opportunities.

Note in 2021 Gresham House acquired Mobeus Equity Partners and is in the process of adopting this same approach to ESG integration.

## Sustainable Investment Framework Application

Environmental			
Climate change and pollution	Natural capital	Waste management	
GHG emissions & climate change impacts, energy management, pollution prevention & control, air quality management	Water use, biodiversity and natural resource management	Waste reduction; sustainable management of waste	

Social			
Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
Employee H&S & well-being, sustainable employment practice, engagement, diversity & inclusion	Product impacts, safety and labelling in use and disposal, quality and value, customer care, data protection	Managing environmental, social and economic impacts of sourcing	Understanding & managing impacts on communities, including human rights; com

Governance		
Governance and ethics	Risk and compliance	Commitment to sustainability
Governance good practice; sound business ethics management and culture	Robust risk and compliance management	Awareness, capability and commitment to run a resilient, sustainable business

### Private Equity Case Study: Patchworks



**Investment date:** August 2021

**Investment amount:** £3.3m

Patchworks is a software company helping e-commerce businesses automate and manage data flows across backend systems.

In demonstrating our commitment to active ownership, Gresham House played an important role in helping Patchworks to evolve from a founder-led business to one with well-developed management and governance systems. Part of our focus was to assist in recruiting key new hires to strengthen the management team around the CEO and founder.

#### Board changes

Post-investment, one of our investment directors joined the board, while we also helped appoint a chairperson through our talent network. This chairperson currently works as a non-executive director at another of our investee companies, e-Consult Health.

We have also been active in assisting the creation of various committees and schemes within the business, such as the Remuneration Committee and management incentive scheme, sharing best practice to help with the implementation and management of these new initiatives.

#### Senior management

We then set out to assist in recruiting a senior management team to sit alongside the founder and helped to appoint both a Chief Financial Officer (CFO) and Chief Revenue Officer (CRO). We also helped to appoint a new non-executive director with experience in the retail and consultancy sectors.

## Other actions

To help Patchworks in its ambition to scale its business, we also took the following actions:

1. We shared our Best Practice Board Pack for early-stage software as a service (SaaS) businesses to support their governance processes.
2. We developed a detailed 100-day plan to help with the integration of the new management team and continued scaling of the business.
3. Scheduled weekly calls with the management teams to evaluate progress against this plan.
4. Discussed how we can assist in their aims to achieve B-Corp status.

*“We are delighted with the partnership we have forged with Gresham House. They have played a crucial role in helping re-shape our governance and management structures and helped to bring significant enhancements to our operations that will help us to continue to develop and innovate going forwards”- Dave Wiltshire, Founder, Patchworks*

## UK Public Equity Case Study: Nexus Infrastructure plc

**Investment date:** 2021

**Investment amount:** 4.2% of outstanding shares<sup>1</sup>

Nexus Infrastructure plc provides infrastructure and engineering services to the housebuilding, transport, and commercial sectors in the United Kingdom. The business comprises of three divisions, two of which are focussed on the construction of electrical connections to the grid; TriConnex and eSmart Networks.

**Initial appraisal** - our initial appraisal of the investment identified several potential earnings drivers that could materially increase company sales in the medium term, one of which was linked to environmental factors.

**Due diligence** - during due diligence of the company and investment case, we investigated the market opportunity driven by climate change-related policy and regulation. It became apparent that policy and regulation was targeting the rapid decarbonisation and electrification of energy and power systems implying a potential material increase in demand for electrical connections, central to Nexus’s product offering.

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<sup>1</sup> As at 31 December 2021

## E: Climate change and pollution

- Transition to low-carbon, net zero economies - acceleration away from the use of fossil fuels to electric power sources
- Electric vehicle adoption and regulation - material requirement for increases in EV charging infrastructure
- Electrification of the grid - production and storage of electricity becomes key for grid stability as renewables increase as a portion of power generation

We also investigated further the company's **governance** structures which highlighted a material shareholding of the CEO<sup>1</sup>. Whilst this could pose potential risks for minority shareholders by limiting their ability to drive change through engagement, we were comforted that in fact this demonstrated alignment of interests to us as shareholders.

Following due diligence, we believed that a successful execution of this growth opportunity could drive material profit growth due to operational gearing and a re-rating of the stock. As such, we decided to invest.

**Holding period** – once invested, we reviewed the company's latest reporting and results. A **health & safety** incident metric had increased, an anomaly compared to the previous two years of improvement. Given the practical health & safety risks linked to Nexus' activities, we investigated further.

Following a meeting with the Management Team, we received a breakdown of the drivers behind the increase in Accident Incident Rate. The additional information gave us comfort that this did not result from a material increase in incidents or a change in operational control or culture. Moreover, management highlighted that other health and safety metrics had in fact improved and reinforced the company's continued focus on managing such risks and providing a safe environment for its employees.

In this way, we did not change our investment holding or feel the need to follow up further.

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<sup>1</sup> The CEO held 22.2% of total shares at 10 December 2021. Source: Nexus Annual Report, 2021

## 8.3 Forestry

### Approach

Our Forestry investments are very long term in nature and through our management approach we proactively set out to improve the value and lifespan of assets through sustainable forestry management.

We integrate ESG considerations into the lifecycle of each investment as follows:

#### 01 Sourcing

High-quality commercial forests across diversified age groups are sourced both on and off market. Various characteristics are assessed including geographical location, species mix, size, growth rates, local conservation, or species protection designations, and for new planting sites a peat survey will check the land is appropriate for forestry.

#### 02 Due diligence

The acquisition team conducts a rigorous and consistent multi-disciplinary due diligence acquisition process targeting high-quality commercial forests across diversified age groups and geographies. Each forest is evaluated using the ESG Decision Tool to uncover material ESG risks and opportunities. This includes an assessment of whether a forest meets our internal sustainability commitments and can be certified to international and/or national certification standards.

Where possible, we will carry out site visits to verify that the due diligence assessment aligns with the data collected onsite. In addition, third party specialists are often employed to measure the volume of timber currently available on site, or in the case of new planting an indicative forest design will be prepared setting out where and what can be planted, whilst other surveys will be completed for new planting schemes to assess a wide range of characteristics including bird populations, archaeology sites and peat levels.

#### 03 Acquisition

The Investment Committee must approve investment proposals. A summary of the ESG analysis is included in every Investment Committee submission. Once the Investment Committee has approved a proposal, an offer is submitted. If the offer is accepted, an acquisition report providing all the key details of the acquisition (including a section on ESG) is produced and is then sent to the client. In the meantime, the conveyancing is carried out by lawyers who prepare a report on title. We provide oversight of the entire transaction.

#### 04 Ongoing management

We will work closely with forest managers to ensure forest plans are observed and achieved within expected timescales. Forest management plans include plans for how material ESG aspects will be managed over the project lifecycle.

Our certified sites are independently assessed by the appointed auditors, and we conduct our own checks against agreed standards, internal commitments and management objectives. Carbon captured by our forests is also monitored. Once the timber is harvested, we ensure that replanting is carried out in line with required standards.

## Sustainable Investment Framework Application

 Environmental			
Climate change and pollution	Natural capital	Waste management	
Optimisation of carbon sequestration and stores; reduction in operational emissions; climate transition opportunities; pesticide minimisation	Optimisation of woodland biodiversity; protection of priority habitats and species; considered pest, disease, soil and water management approach	Sustainable management of waste arising from forestry operations	

 Social			
Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
Workers' rights protected; commitment to discrimination free, safe and fairly-paid employment and employee training	Certification of forests in line with sustainable forestry standards; production of certified timber; transparent and robust carbon credit generation	Alignment of suppliers to our own sustainability commitments; alignment of woodland managers to certification standards	Good practice community relations and engagement; respect of local community rights; public access, education and recreation

 Governance		
Governance and ethics	Risk and compliance	Commitment to sustainability
Good forestry management practices; clear policies and accountability; ethical business conduct	Robust risk, compliance and auditing processes	Measurement and monitoring of key sustainability metrics; proactive management of potential negative ESG impacts

The integration of ESG considerations into our forestry investments is underlined by the following:

- All discretionary-managed forests will be managed in line with the Gresham House Forest Charter which outlines our internal commitments regarding sustainable forest management (see "Informing Best Practice in Sustainable Forest Management" table below).
- We undertake good practice public consultation where new plantations involve change of land use and keep local communities informed of felling plans and other significant operational activities. We also engage industry stakeholders such as regulators, policy makers and industry associations to promote outcomes we believe to be in the interests of sustainable forestry and for our clients.
- Our UK assets work to the UK Forestry Standard and are certified to the UK Woodland Assurance Standard (UKWAS) and International Forestry Stewardship Council (FSC) accreditation. Our international assets are managed to relevant local standards and/or international standards including the FSC and the Programme for the Endorsement of Forest Certification (PEFC). These standards provide a set of thematic principles that we adhere to in our planning, management, felling and restocking cycles as well as the wider way in which we run our forest enterprises.
- Management plans are drawn up for each asset, setting out clear management objectives spanning both commercial and ESG outcomes and how the asset will be managed to meet these within its given prevailing conditions. Performance measurements are integrated into the plans, which are subsequently reviewed on an annual basis.

- Our team has significant specialist expertise, including professional qualifications from the Institute of Chartered Foresters (ICF), spanning both sustainable forestry practices and sustainable investment. We undertake regular relevant continuing professional development (CPD) to keep knowledge and outlook up to date and will continue to invest in developing our expertise and good practice in sustainable forestry asset management.
- We conduct regular monitoring of ESG risks, opportunities and performance in our investments and over time will prepare ESG data analysis for reporting to our investors.
- Our certified sites are independently assessed by FSC-appointed auditors and in addition we conduct our own in-house auditing against agreed standards and management objectives

## Forestry's 2021 outcomes

**7.6 million** trees planted covering over 3,000 hectares<sup>1</sup>

**991,000** tonnes of certified timber sold, contributing to a low carbon economy

**1.5 million tCO<sub>2</sub>e** sequestered<sup>2</sup> Equivalent to 0.5% of the UK's total carbon emissions in 2020<sup>3</sup>

*1. Assumes 90% stocking of 1,100 trees per hectare are planted for broadleaves and 2,700 trees per hectare for all other species*

*2. Expected annual carbon sequestration based on the area (ha) of forests under management in 2021 and expected forest growth levels*

*3. UK annual carbon emissions were 329.58mt CO<sub>2</sub>e (Our World in Data, 2021)*

## Informing best practice in sustainable forest management

- In 2021, the Forestry Team developed the Gresham House Forest Charter ("the Charter") in response to increasing client and stakeholder expectations regarding the sustainable management of forests.
- The Charter's structure is based on the UK Forestry Standard's "balanced objectives" concept, recognising that the environmental, economic, and social functions of forests and woodlands interact in support of each other and must be balanced to achieve long-term sustainable outcomes for forests and woodlands.
- The Gresham House Forest Charter sets out the division's verifiable commitments and targets relating to sustainable forest management and confirms the key performance indicators to be measured against.
- We are committed to at least meeting industry standards and going beyond these to become the best-in-class forest manager and a leader in pushing for more sustainable forest management by driving best practice, thereby improving the standards of all providers.
- The commitments made in the Charter cover the following topics: Forest Products & Services; Climate Change; Biodiversity & Woodland Ecology; Forest Protection; Income & Employment and Communities & People.
- We are in the process of submitting a case study on the Charter to the PRI to provide peers with an example of how sustainable forestry investment and management is approached.

## 8.4 New Energy

Our New Energy Division (Wind, Solar and Battery Energy Storage System (BESS)) is transforming the energy sector from fossil fuels towards one dominated by renewable energy. The strategy aligns with national and international goals to decarbonise energy generation and supports the transition to a low-carbon economy.

We integrate ESG considerations into the lifecycle of each investment as follows:

### 01 Preliminary due diligence

High level assessment carried out to identify material ESG matters requiring further investigation during the due diligence stage. If certain risks are unlikely to be manageable or mitigated, then we may choose not to proceed at this stage.

### 02 Due diligence

Our ESG Decision Tool is used to uncover material ESG risks that need to be mitigated and monitored and to identify ESG opportunities that have the potential to drive value, now or in the future. Where necessary specialist consultants are engaged to support the diligence process and a summary of the ESG analysis is discussed with the Investment Committee.

### 03 Investment appraisal

Investment recommendations to Investment Committees include an assessment of material ESG risks and opportunities identified in due diligence which are then factored into the decision-making process. Appropriate risk mitigation approaches will also be referenced and assurance that the business is open to making improvements is sought.

### 04 Asset operation

We aim to construct and operate our projects with minimal disruption to local communities and the environment. Construction and operational contractors are subject to ongoing review and the requirement to manage material ESG risks is included in contract terms. Compliance with planning conditions is stringently adhered to and monitored. We continue to assess how we can enhance positive environmental and social impacts of our projects.

## Sustainable Investment Framework application

 Environmental			
Climate change and pollution	Natural capital	Waste management	
Optimal contribution to low carbon energy generation in the UK	Visual impact and biodiversity management	Waste reduction and sustainable management of waste in construction, operation and decommissioning	

 Social			
Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
First class H&S system; site safety policy	Maximum uptime and minimal local disruption	Robust policy relating to materials impact, quality and ethics	Good practice consultation; local investment strategy

 Governance		
Governance and ethics	Risk and compliance	Commitment to sustainability
Governance good practice; strong business ethics management and culture	Robust risk and compliance management	Continuing enhancement of the portfolio and its impacts

The integration of ESG considerations into our New Energy investments is underlined by the following:

- We improve the value and lifespan of assets through extension of permissions and licences and the adoption of technology that increases and/or optimises renewable energy output without materially increasing land use or environmental impact.
- We participate in community led initiatives and grants to contribute towards the local economy, help to improve biodiversity and keep an open forum of communication with community stakeholders.
- Prior to investment, we will review and take heed of the environmental aspects of an asset, in particular the Environmental Impact Assessment where relevant, and any other technical studies required to gain planning permission, as well as the process for public consultation.
- Opportunities for enhancing the environmental benefits and minimising the environmental impact of projects is often assessed as part of this process, through Habitat Management Plans and in line with planning requirements. If done, the analysis will form part of our investment decision making, alongside other due diligence reports.
- Prior to investment and as part of ongoing asset management, we also consider the social impacts of our assets including supply chain risks and opportunities and engagement with stakeholders such as local communities. The safety of employees and contractors is of paramount importance for all our assets and is a key focus for ongoing management and monitoring.
- We will act to minimise any social risks and ensure compliance with relevant policies. As part of this approach, we consider certain sustainability credentials of our contractors and suppliers such as alignment with our Supply Chain Policy or contract terms.

<p><b>490.5 GWh</b> renewable electricity generated</p> <p>Equivalent to 131,000 homes powered<sup>1</sup> and 216,000 tonnes of CO<sub>2</sub> avoided<sup>2</sup></p>	<p><b>£483,000</b> paid to community benefit funds, a 23% increase from 2020</p>	<p><b>425 MW</b> Total battery energy storage operational capacity provided to the UK National Grid<sup>3</sup></p> <p>An increase in operational capacity of 110MW from 2020</p> <p>415MW of battery energy storage capacity under construction</p>
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1. Assuming an average annual household usage of 3.748 MWh, BEIS December 2021 statistics  
 2. Assuming an “all non-renewable fuels” emissions statistic of 440tCO<sub>2</sub>/GWh of electricity supplied, BEIS statistics. “Carbon avoided” calculated using Renewable UK methodology  
 3. Cumulative capacity of battery energy storage (BESS) fleet using end of year (31 December 2021) data

## 8.5 Sustainable Infrastructure

The Sustainable Infrastructure division invests in real assets that help to address key sustainability challenges. It aims to deliver effective and alternative investment solutions to ensure clients achieve their financial objectives whilst making a meaningful contribution to advancing the world's transition to a more sustainable way of life.

The division invests across six thematic sub-sectors:



**Decarbonisation**  
the transition to a low carbon energy system



**Waste Solutions**  
recycling and reuse of waste, treatment of niche waste streams, waste to energy



**Resource Efficiency**  
agricultural and water technology infrastructure



**Digital Inclusion**  
digital infrastructure



**Health and Education**  
access to high quality education and health care



**Regeneration**  
investing to improve biodiversity and natural capital

We integrate ESG considerations into the lifecycle of each investment as follows:

### 01 Preliminary due diligence

Assess an investment's potential sustainability outcomes and alignment to the UN Sustainable Development Goals (SDGs). If an investment does not provide appropriate sustainability outcomes or if certain risks are unlikely to be sufficiently managed or mitigated, then we may choose not to proceed at this stage.

### 02 Initial assessment

Desktop analysis completed to ensure all negative and positive externalities are considered and ESG matters requiring investigation in 'Due diligence' stage are identified. A forum of Gresham House individuals, including the Sustainable Investment Director, completes an initial review which is then followed by a short discussion with the Investment Committee.

### 03 Due diligence

ESG Decision Tool is used to uncover material ESG risks that need to be mitigated and monitored, and identify ESG opportunities that have the potential to drive value, now or in the future. Where necessary specialised consultants are engaged to support the diligence process and we then work closely with the investee management team to put an action plan in place to either mitigate or capitalise on these ESG factors. The Sustainable Investment Team may also be asked to assess and comment on the sustainability credentials of an investment.

### 04 Investment appraisal

Investment Committee submissions include a full sustainability assessment of applicable positive and negative externalities, including material ESG risks and opportunities identified in due diligence which are then factored into the decision-making process. Appropriate risk mitigation approaches will also be referenced and assurance that the business is open to making improvements is sought.

Our investment documentation includes a sustainability commitment to which the investee management team must sign up to. All portfolio companies will implement a business-wide Sustainability Policy and Diversity & Inclusion Policy.

## 05 Holding period

We take a very active role in the company's strategic direction via regular engagement with the Board, including Gresham House representation where possible, to provide robust oversight and governance. These meetings will focus on strategic, financial and operational matters, including ESG factors. Regular monitoring of ESG KPIs is undertaken by the investment team, the Board and the Investment Committee.

### Sustainable Investment Framework Application

 Environmental		
Climate change and pollution	Natural capital	Waste management
Facilitating the transition to a low-carbon economy; innovative pollution prevention systems; land use efficiency in food production	Biodiversity and local environmental impact management; resource efficiency and use of more sustainable input resources	Waste reduction, sustainable waste management and circular economy

 Social			
Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
Creation of quality local jobs; robust H&S systems; community safety	Design for positive outcomes, safety, quality, wellbeing, inclusiveness and durability	Robust sourcing policy including: environment, ethics, quality and contribution to the local economy	Understanding and acting on local stakeholder needs and concerns; transparent communications and supporting the local economy

 Governance		
Governance and ethics	Risk and compliance	Commitment to sustainability
Good practice governance; sound business ethics management and culture	Robust risk and compliance management; monitoring of regulatory and policy change	Clear objectives for positive social and/or environmental outcome delivery alongside robust financial returns

### Sustainable Infrastructure Case Study:

#### Digital Inclusion (Wildanet)



**Investment date:** 22 December 2020

**Investment amount:** £50m

Gresham House's Sustainable Infrastructure team invested in Cornwall-based alternative broadband network provider Wildanet. The commitment aimed to enable Wildanet to push forward its ambitious plan to bring much faster and more reliable broadband connectivity to even the most rural homes and businesses of Cornwall. Wildanet is targeting broadband speeds around 40 times faster than the average connection in the county while also supporting 5G mobile data coverage.

**Sustainability challenge being addressed:** The pandemic has highlighted the shortcomings of the existing UK copper-based broadband network and the 1.5 million homes in the UK that still do not have internet access.

In some rural areas as many as one fifth of households cannot get superfast broadband.<sup>1</sup> The impact of poor connectivity and slow download speeds in these areas has been severe, acting as an obstacle to growth.<sup>2</sup>

The Sustainable Infrastructure team was particularly attracted to this deal given the potential to invest in one of the most deprived areas of the UK to support digital inclusion, which is key to enhancing access to education and telehealth, fostering social wellbeing as well as contributing to the growth of enterprise and the digital economy.

**Investment outcomes:** The capital provided to Wildanet enabled it to upgrade and expand its existing gigabit-capable network in 2021 to continue to target the underserved homes and businesses of Cornwall through a combination of a new full fibre network and expansion of its fixed wireless network. 3,000 homes have been passed with full fibre broadband so far, with over 1,100 customers. Longer term, the fibre network is expected to reach 60% of Cornwall's properties by 2023, creating up to 98 new Cornish jobs in the process, and enabling homes and businesses across the county to enjoy the benefits of a good value, fast, reliable internet connection.

## 8.6 Housing

We offer long-term equity investments into UK housing, through listed and unlisted housing investment vehicles, each focused on addressing different areas of the UK's well documented structural shortfall in housing.

Our investments aim to deliver stable, secure inflation-linked returns whilst providing wider social and environmental benefits to all stakeholders including our residents, the local community and wider economy. Where relevant, our funds can invest through one of the two wholly-owned, for-profit Registered Providers of Social Housing, ensuring they are managed with the highest standards of governance, financial viability and resident welfare.

The UK Housing division invests across four core areas:

- **Shared ownership:** providing an affordable route to home ownership for people on lower and middle incomes.
- **Independent retirement rental:** providing fit for purpose homes for retired people, allowing them to maintain their independence for longer, whilst freeing up larger homes for families.
- **Build to rent (BtR):** providing high-quality and fairly priced homes that are affordable for those on lower and middle incomes, whilst bringing forward more new homes by working in partnership with builders and developers.
- **Local Authority housing:** providing homes for lease to local authorities to enable them to house people otherwise homeless in their area.

We integrate ESG considerations into the lifecycle of each investment as follows:

### 01 Sector analysis and strategy setting

Integration of sustainability considerations starts at the point we design our investment strategies. The UK Housing sector covers a broad spectrum of sub-sectors so choosing the most appropriate areas to invest is key. All our funds share a similar underlying strategy focusing on housing that is affordable for the UK mid-market.

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<sup>1</sup> Tackling the digital divide - House of Commons, 4 November 2021 | Local Government Association

<sup>2</sup> The economic impact of Digital Inclusion in the UK, September 2018 (goodthingsfoundation.org)

## 02 Desktop analysis

The initial stage of due diligence is based on all relevant available material; this allows the investment team to assess whether the proposed investment meets agreed ESG objectives.

Following its development in 2021, from 2022 the ESG Decision Tool will be used to identify material ESG risks that need to be mitigated and monitored, and identify ESG opportunities that have the potential to drive value, now or in the future.

## 03 Execution

More detailed review of previously identified fundamentals is carried out through a combination of site visits, engagement with professional advisors, and discussions with any operational partners. Investment Committee submissions include an assessment of material ESG risks, opportunities and mitigation requirements identified in due diligence which are then factored into the decision-making process.

## 04 Holding period

We work closely with managing agents to ensure they operate in line with best practice standards and deliver on expectations. Certain ESG related KPIs are monitored and if applicable we will continue to monitor operational partners.

### Sustainable Investment Framework Application

 Environmental			
Climate change and pollution	Natural capital	Waste management	
Energy-efficient housing; renewable energy where possible; access to public transport where available	Water-saving measures where possible; regeneration of brownfield sites	Where feasible, sustainable management of waste arising from refurbishment, maintenance and management of the portfolio	

 Social			
Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
Safety and well-being of residents is a priority; application of best practice standards; quality employment	Affordability and quality in all tenure types; widening access to home ownership; proactive protection of residents' interests and customer charters	Sourcing policy ensures management teams have required knowledge of local areas and meet regulatory requirements	Contributing to community stability and environmental quality; housing that is accessible to jobs and amenities

 Governance		
Governance and ethics	Risk and compliance	Commitment to sustainability
Good practice governance; strong business ethics management and culture	Robust risk and compliance management; monitoring of regulatory and policy change	Clear objectives for positive social and/or environmental outcome delivery alongside robust financial returns

Our UK team has extensive expertise across the investment cycle in each of our strategy tenure models, from origination to due diligence and the long-term management phase. We also continue to invest in developing our understanding, expertise and good practice in delivering long term sustainable and affordable outcomes associated with our asset selection and management.

We choose partners, management teams and contractors, where applicable, who share our commitment to delivering positive outcomes in our housing portfolio.

## Case Study: UK Shared Ownership Housing Charters in action

In 2020, we introduced our bespoke Housing Customer and Environmental Charters, designed to improve practices across the shared ownership sector, while providing benefits to shared owners and investors. In 2021 we began to see the impact of our charters in action.

### *Environmental*

The shared ownership Environmental Charter outlines how our UK housing division is committed to the delivery of sustainability and carbon reduction targets, with a goal of achieving operational net-zero carbon by 2025. It states that we will work with industry partners to achieve net zero carbon for all new homes by 2050.

At a 2021 development, 101 new homes will aim to be zero carbon and include measures such as:

- Solar panels to be installed to meet part of the electricity demand of the development,
- Excess electricity produced by the solar panels to be sold to suppliers through Smart Export Guarantee schemes
- Air source heat pumps to be installed to significantly reduce emissions compared with gas systems

### *Customer*

The shared ownership Customer Charter aims to provide new homes with access to private outdoor space, as well as providing staircasing options for owners, allowing them to increase their level of ownership in their home.

In August 2021, we acquired 247 fully tenanted shared ownership homes from **Swan Housing association**. Post-acquisition, all shared owners have had the option to buy 1% of their property a year (vs. minimum 10% increments under a typical shared ownership lease), at a fixed price with no extra costs, which was not available to tenants prior to our acquisition. We have already received 12 enquiries, with a further 10 residents currently going through the process.

The impact of our Customer Charter can also be seen at our **Solihull site**. In 2021 we agreed the forward purchase of 61 new build shared ownership homes. At the outset not all homes had access to outdoor space. However, at our request, all properties have now had their specification upgraded to include a private balcony, in line with our charter ambition to provide all new homes with private outdoor space.

By following the commitments of our Environmental and Customer Charters, our UK Housing Division can demonstrate genuine additionality in its operations. This can be seen most apparently through the creation of new homes but also by offering tenants benefits that would not otherwise be available to them.

## 9 Our approach to engagement

Across our investment activities, we engage directly with numerous stakeholders including investors, investee companies and project counterparties. It is central to our philosophy that we take a hands-on approach to our investments to ensure the best result for both shareholders and clients.

Our engagement approach and focus will differ across our various asset classes. Across all our divisions, we strongly believe engagement is an essential part of being an effective steward of our shareholders' and clients' assets.

### 9.1 Strategic Equity – UK Public Equity

We encourage an open and honest dialogue between ourselves and the companies in which we invest as this is an essential part of being an effective steward of the investments we make. Investing in smaller businesses means we place great importance on our ability to work with company management through engagement activity to make improvements and protect long-term value.

Our assessments of management, board and governance forms a critical part of the investment case, which necessitates that we work with companies on matters such as strategy, mergers and acquisitions and remuneration, both from the outset of the holding period and on an on-going basis.

We will meet face-to-face with the management team of a publicly listed company at least once a year, and more frequently when we own a material share of a company. These meetings form the basis of ongoing monitoring of a company strategy, financial performance and ESG considerations. We are often one of the largest shareholders in investee companies and therefore have the opportunity, where deemed appropriate, to influence changes that we feel will have a significant impact on shareholder value.

**96%** met with the management teams of nearly all investee companies in 2021

**37** governance-focused engagements in 2021

#### 9.1.1 Defining engagement objectives

Dependent upon factors such as materiality and level of control, we may identify and agree strategic milestones that we expect a company to achieve over the holding period. We will identify key strategic milestones that are bespoke to the organisation and important to the development of the business, aiming to keep the management team and directors focused and ensure continued progress.

Objectives may change over time depending on several factors, including business priorities, market forces and stakeholder considerations. We also intend to roll out a more thematic engagement programme with the primary objective to better position companies in relation to trends such as increased climate change risks and policies, or increased sustainability-related regulation. We hope to provide more detail on this in next year's report.

Identified objectives provide a framework which forms the basis of our discussions with companies during regular scheduled engagements. We will monitor progress on engagement objectives overtime to assess the outcome of engagement activities and potential impact on our investment position.

### 9.1.2 Conviction scores

Internally, we maintain conviction scores for the majority of our investments, which incorporate a quantitative and qualitative analysis of various business parameters, including relevant ESG factors. Whilst we don't disclose specific conviction scores to our investors, as we feel it inappropriate to do so, we do explain to investors how the conviction score process works, the factors that go into it, including ESG factors, and how position size in the fund correlates to our conviction score. This aims to give investors confidence in our ability to monitor change and take any action necessary. In addition, we include case studies in investor presentations setting out how we have engaged with businesses, to what end and how this has managed risk and/or added value.

In the same manner, we are proactive in communicating our positioning on sustainable investment and include information on our approaches (and their benefits) in our investor presentations. Any material issues or incidents would be recorded and considered.

### 9.1.3 Prioritisation of engagement

Our commitment to a core set of governance principles and to active engagement with portfolio companies remains consistent between investee companies regardless of the size of our holdings. However, we recognise that our level of influence and ability to achieve change is likely to vary depending on the size of our investment in a company.

Engagement with an investee company may vary based on its corporate performance and governance standards. The level of engagement is calibrated based on our assessment of each company, the risks, opportunities, the probability of achieving change and the potential value at-risk or value enhancement from the engagement.

We are working to develop our approach to identify and prioritise engagement. We expect this to include a regular meeting to identify and select priority engagements. Prioritisation may also be driven by thematic engagement targets to support our Corporate Sustainability Strategy.

### 9.1.4 Escalation

Given the context of our engagement activities varies widely by investee company, we have not developed formal objectives for escalation. We nonetheless have very clear, even if informal, objectives to escalate that are applied on a case-by-case basis. Typically, escalation is considered where we oppose proposed changes that could be detrimental to shareholder value or where management teams or the board fails to respond meaningfully to our engagement objectives to create positive change.

Specific situations across our investee companies can differ significantly so we do not apply a one-size-fits all approach. Instead, we apply a principles-based approach when it comes to escalation factors and will discuss within the investment team the best course of action which may involve further engagement with the company, use of voting rights or discussions with other shareholders.

Where engagement with management teams proves unsuccessful, the investment manager will reach out to Non-Executive Directors (NEDs) or the Board Chair. We adopt this approach since our preference is always to work collaboratively with the company. If this also proves unsuccessful, we will reach out to other shareholders, making a public statement if deemed necessary. If this also fails to deliver the desired outcomes, we will then seek to exit the investment.

If the issues at stake are materially at odds with our commitment to preserving shareholder value or our externally communicated principles, we will escalate or exit the investment. There are three issues over which we will escalate more widely should we be unable to resolve with the management teams. These are:

- Takeover bids
- Acquisition plans
- Governance matters

These matters are deemed critical in preserving and increasing shareholder value. Escalation via formal shareholder letters or other public avenues is typically a last resort.

We intend to develop our engagement approach which will include more clearly identifying escalation options and using escalation activities when engagement objectives have not been met.

## Escalation Case Study A

**Engagement focus:** takeover offer

**How we engaged:** meeting with management

**How we escalated:** meetings with corporate finance advisors and non-Executive Chairman of the target company; communication with management team of the acquiring company

An investee company was in a takeover situation where consideration was for part cash and part equity in another listed company. We lobbied the company's executive management team, corporate finance advisers and non-executive Chairman to increase the cash component of the offer. We also lobbied the management and advisors of the acquiring company for the same purpose.

**Outcome:** during the process there were adverse commercial developments at the investee company. This changed our calculations and ultimately, we accepted the original offer terms.

## Escalation Case Study B

**Engagement focus:** takeover offer

**How we engaged:** meeting with management

**How we escalated:** use of voting rights

Despite being a small shareholder in an investee company, only owning around 0.1%<sup>1</sup> of the multi-billion-pound company, we engaged regularly with management prior to and throughout our investment period.

When a takeover offer was made by a private equity firm for the investee company that, in our view, did not fully reflect the fundamental and strategic value of the asset, we communicated our views to the management team during a meeting.

We escalated our view by voting against the initial offer to reflect our opposition.

**Outcome:** Ultimately, the takeover offer was increased, and the acquisition completed which led to an attractive return of 1.5x investment and a positive outcome for our clients.

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<sup>1</sup> As of August 2021

### 9.1.5 Collaboration

Across our public equity activities, our primary means of engagement is directly with portfolio companies due to our active management approach.

There may be reason however to collaborate with other shareholders (or stakeholders) to drive improvements in shareholder value. We would consider collaborating on matters of governance as we believe strongly that this is one of the most important drivers of investment performance. We will explore collaboration with other shareholders in instances where we find this to offer the best route to effecting necessary change.

#### Collaboration Case Study

We met with a representative from UKSIF (UK Sustainable Investment and Finance Association) to discuss the potential for launching a collaborative engagement initiative for investors in smaller companies.

Current collaborative engagement initiatives are focused on large-cap companies, such as Climate Action 100+. This reduces the opportunities for our UK Public Equity team to be involved in collaborative engagement initiatives given our investments are primarily in micro-cap and small-cap companies.

During the meeting with the UKSIF representative, we supported the proposal to launch a smaller companies engagement initiative. We connected UKSIF with a key small and mid-sized company industry association so that they could better understand the potential demand from the investee company side.

We remain in touch with UKSIF on this proposal and are providing feedback on the potential format that this initiative could take and on what the key objectives might be.

#### Collaboration Case Study

**Engagement focus:** company underperformance

**How we engaged:** meetings with executive management and board members

**Who we collaborated with:** other significant shareholders

An investee company had been underperforming materially over the previous 1-2 years, with profits declining as well as the valuation multiples on which the company traded.

We put the investment under review and shortly after were contacted by one other significant shareholder, who shared concerns around operational strategic performance.

As part of our review and following discussion with the other material shareholder, we held a number of meetings with the board and executives to discuss the business and formulate recommendations for change. This included:

- Change to the operational strategy - including headcount, offices, PLC costs, overheads
- Strategic change – revisions of geographical focus
- Personnel change – changes to the board and executive teams.

**Outcome:** continued engagement with the company.

## 9.2 Strategic Equity - Private Equity

We invest primarily via venture capital (VCT) funds which are evergreen funds investing in earlier stage, fast-growing businesses. Our strategy offers investors access to entrepreneurial high growth, earlier stage, and lower mid-market private companies. We specialise in scaling software and digitally driven businesses in the healthcare, consumer, and services sectors.

Whilst we typically take a minority equity stake in our portfolio companies, we seek to actively engage to help founders deliver their growth ambitions. This frequently involves taking a board seat or becoming a board observer, which ensures sufficiently frequent levels of communication with the management team. After the deal, we might engage with specialist consultants from time to time, but we handle most of the engagement process ourselves. Communication frequency varies depending on the needs of each company. We may speak with the management of a particular company from many times per week to once per month.

Through this active involvement we seek to deliver strong year-on-year growth in fund net asset value through building businesses which are attractive targets for either strategic trade or larger private equity acquirers.

**100%**

engaged with all our active unquoted portfolio companies in 2021.

**72%**

contributed to boards as a member or observer on the majority of our portfolio companies.<sup>1</sup>

### 9.2.1 Defining engagement objectives

During and immediately post due diligence, we work closely with the management team to identify and agree a set of strategic and tactical milestones that we expect the management team to achieve over the first 100 days of our holding period (and up to a year post investment). This means focusing on near term changes which may be required for operating and reporting processes, such as board representation, governance policies and new hires, and strategically this could involve identifying three or four key milestones which are important to the development of the business and driving long-term value.

We have also developed a Best Practice Board Pack for early-stage software as a service (SaaS) businesses to help them scale their businesses, including information on good governance and best practice. This has evolved with the help of the Sustainable Investment team to include information on ESG best practice and ESG risk management tools that can be used by businesses across various sectors.

Strategic changes may be amended over time depending on several factors, including business priorities, market forces and stakeholder considerations. Identified objectives provide a framework which forms the basis of our discussions with companies during board meetings or other regular engagements.

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<sup>1</sup> Compared with 80% in 2020. We acquired the VCT business from Mobeus Equity Partners in 2021 which had a lower number of Board contributors, leading to a reduction in this overall figure.

## Defining engagement objectives using our ESG survey

In 2021, we conducted an ESG survey on our unquoted investments to identify a baseline understanding of how portfolio companies think about ESG, which ESG data is already being reported and monitored, and how we can frame our ESG engagement in 2022.

**88%** of portfolio companies completed the survey<sup>1</sup>

We asked 74 questions across a range of material environmental, social and governance factors. Companies were asked to indicate the relevance of a range of material ESG factors to their business, as well as their ability to influence these factors.

The results were analysed by our Sustainable Investment team and overlaid with a well-known sustainability materiality assessment to understand if companies were aware of the most significant ESG risks to their business types.

We will be using the findings from the ESG survey to;

1. Assess each company against their relevant peer group and communicate findings to management teams
2. Support and educate portfolio companies to better understand the material ESG risks inherent in their business operations
3. Set ESG relevant objectives for improvement which Gresham House will then engage with the portfolio companies on over the next 12 months and longer term
4. Deliver educational webinars for portfolio company management teams to enhance their knowledge on different ESG factors important to their business success

## Case Study – reacting to the Ukraine crisis

**How we engaged:** Board-level meetings and engagement

**Engagement focus:** reduce exposure to and reliance on hostile states

**Issue to be addressed:** in the early stages of Russia's invasion of Ukraine, Gresham House's VCT business discovered that two of its portfolio companies were using outsourced IT suppliers in countries that had ties to Russia. Gresham House's non-executive representatives engaged at Board level to express a clear view that the companies should consider switching suppliers. We recognised that this action would come at a cost to those companies but that morally it was the right thing to do.

**Outcome:** Both portfolio companies are in the process of switching IT suppliers to those in non-hostile states.

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<sup>1</sup> This survey was of our Baronsmead portfolio as it was undertaken pre-Mobeus acquisition and integration

### 9.2.2 Prioritisation

We segment our portfolio based on what we believe the returns potentially are from a company but also based on how much influence we have with the management team. The more influence we have, typically the higher the potential return is.

The prioritisation of our engagement varies on a case-by-case basis but is largely dependent on our valuation assessment of the company and its growth projections. We believe flexibility in approach enables dynamic responses to the needs of each business which all face unique challenges.

We are working to develop our approach to identify and prioritise engagement. We expect this to include a regular meeting to identify and select priority engagements. Prioritisation may also be driven by thematic engagement targets to support our Corporate Sustainability Strategy.

## 9.3 Forestry

Our engagement approach in our Forestry division is primarily with landowners, forest managers, host communities, and the wider market.

As the largest private commercial forestry manager in the UK, Gresham House has been at the forefront of interacting with Government departments and relevant bodies in the management, development, and increased planting of forestry in the UK - especially in Scotland where the majority of commercial conifer is grown. Government agencies and other key forestry stakeholders we have engaged include:

- Scottish Cabinet Secretary for Rural Economy and Tourism and Natural Resources Wales (NRW) to provide input to discussions around government policies on rural land use and woodland creation
- Confor, the industry association for sustainable forestry in the UK. Our Head of Forestry, Olly Hughes, sits on the Board to support the strategic direction of Confor's work programme and provide advice on arising matters. In 2021, Confor created a guidance paper on Responsibilities for Environmental Protection in Forestry to help landowners and employees. It also provided insights for members on the implication of climate-related initiatives such as UK's Net Zero Strategy and COP26
- Woodland Carbon Code around the creation, eligibility criteria, registration and application of carbon credits for woodland creation in the UK
- Participating in a London Stock Exchange Voluntary Carbon Markets Solution (VCMS) Delivery Group which seeks to accelerate the availability of financing for projects that will support a just transition to a low-carbon economy. As a participant, we share expertise, raise issues and provide solutions in relation to the design of the VCMS
- The Forest Industry Safety Accord (FISA), where we are on the landowners' representative board. The FISA set out industry commitments to raise the standard of health, safety, and welfare in forestry management. We participate actively in this organisation to influence and drive better work practices in the forest management sector

We also aim to lead the forest investment market with regards to sustainable forest management. Following the launch of our Gresham House Forest Charter we met with a Principles for Responsible Investment (PRI) representative to explain our approach. The PRI will publish a case study on their website later in 2022 to demonstrate best practice in the market and support other players in the market to enhance their approach and ambitions regarding sustainable forest management.

The forest managers we employ to manage a forest have their own schemes of certification and they are externally monitored by the Forest Stewardship Council. Most forest managers are also members of the Institute of Chartered Foresters (ICF). These forest managers are engaged on a service level agreement (SLA) for certain standards of forest safety, and specification agreements between us and them cover what we expect from them.

Any major operations are carried out in consultation with forest neighbours and community councils. We always seek to ensure any legitimate concerns are addressed.

## Collaboration Case Study

Gresham House participated in a consultation on updates to the Woodland Carbon Code (WCC). The WCC is the quality assurance standard in the UK for voluntary carbon credits generated by woodland creation projects.

- In November 2021, the WCC informed stakeholders that they were making significant changes to the voluntary carbon credits standards
- We viewed the changes as detrimental to woodland creation by reducing the number of woodlands eligible for carbon funding and hence disincentivise tree planting
- Despite this, the WCC indicated that they would proceed with the changes
- We collaborated with other organisations involved in UK woodland creation and wrote to the UK and devolved governments expressing concerns
- The WCC has now reviewed their position and is involving stakeholders, including Gresham House, in the review of additionality within the WCC to enable carbon funding supporting woodland creation and facilitate further investment
- We await a final decision, but we are optimistic that the new rules will be supportive of productive woodland creation and incentivise activities that enhance carbon sequestration and sustainable timber production

## 9.4 New Energy

### 9.4.1 New Energy – Battery Energy Storage Systems (BESS)

The engagement approach in relation to the battery energy storage systems activities is primarily focused on our work with developers, landowners, planning authorities, contractors and equipment suppliers during the development and contracting/procurement/construction process, as well as investors. During the operational phase of the project, we will engage with several stakeholders including local communities, insurers, operations & maintenance contractors, asset optimisers (traders), the Environment Agency, and even local fire services to ensure they are familiar with how batteries behave in the unfortunate event of a fire (which has not happened on our sites to date).

Engagement is focused to maximise the efficient operation of BESS that help balance the UK electricity grid, allowing it to make optimal use of intermittent renewable energy generation in the UK electricity generation system.

### Collaboration - Supply chain risk management

The team is increasingly focused on identifying and managing supply chain risks for BESS assets. We participated in a Green Finance Institution workshop with other stakeholders in the battery supply chain which aimed to identify solutions and publish a paper on how to create a more resilient and sustainable battery supply chain. We are also working to identify potential industry bodies and associations with whom we can work to enhance drive the industry forward regarding the management of supply chain and other sustainability risks for battery assets.

### 9.4.2 New Energy - Wind and Solar

Our engagement approach is primarily focused on our work with developers, asset owners and equipment suppliers during the procurement process and power purchasers, local authorities, operations & maintenance providers and local communities during the operational phase of the project. Engagement is focused to maximise the delivery of renewable electricity for local and national distribution in a safe and efficient manner with minimal disruption to local communities and habitats.

We also engage with industry associations and government representatives to further promote the renewables market. This includes:

- RenewableUK, an industry trade association whose role is to maximise the renewables opportunity and create the conditions that will see the renewable sector continue to thrive in the UK
- Energy Storage Networks, an industry trade association focused on Energy Storage
- Office and Gas Electricity Markets (OFGEM)
- Department for Business, Energy & Industrial Strategy (BEIS)
- National Grid, an ESO (Electricity System Operator) to be renamed FSO (Future System Operator), the entity which ensures that supply and demand are balanced, and ensures electricity is delivered within tight parameters to maintain system quality at the lowest cost
- Solar Energy UK, a solar trade association whose mission is to empower the UK solar industry

## 9.5 Sustainable Infrastructure

For Sustainable Infrastructure, thorough due diligence prior to the investment helps to formulate a granular picture of the business, informing a coherent engagement strategy which is agreed by the Investment Committee.

Our investment documentation includes a sustainability commitment to which the investee management team must sign up to. All portfolio companies will implement a business-wide Sustainability Policy and Diversity & Inclusion Policy.

During the initial period after investment, we work closely with the management team using an agreed action plan (100-day plan) to support the implementation of any necessary changes to operating and reporting processes, such as board representation, new hires, bolstering governance policies, and requirements for specialist advisors.

We always take a board seat or recommend an appropriate individual. A base level of engagement with the business will always be maintained via regular board meetings (usually monthly) and a close working relationship with the management team, but engagement levels are adapted to suit the requirements of the business, for example during the early stages of the investment or in the event the business is undergoing a change in strategy, the investment team take a proactive approach to allocating resources as required to support the business.

## Industry contributions

The Sustainable Infrastructure team has undertaken a range of industry initiatives over the last 12 months. These include hosting a Pensions for Purpose seminar on the topic of 'There is No Silver Bullet to Climate Change' which was well attended and provided information to the pension community on the need to invest beyond renewables.

The team also provided specific training on Sustainable Development Goals (SDG) metrics and Sustainable Infrastructure for two Local Government Pension Schemes (LGPS) in 2021, helping to elevate the importance of impact in driving financial returns.

The team has devised a 'Time Bank' which seeks to encourage the team to spend their time and skills contributing to projects that improve social or environmental outcomes. Examples of interventions over the last 12 months include:

- The Managing Director of the Sustainable Infrastructure division was a judge and mentor at multiple programs run by the Cambridge Institute of Sustainability Leadership (CISL) Accelerator Program, including the Innovators for the Built Environment and the Accelerator to NetZero programme
- He also was a judge and mentor of the CleanTech challenge, one of the premier university-based cleantech competitions globally
- One of our Associate Directors acted as a mentor for two mentees as part of Regen's Women in Renewable Energy mentoring programme. She has also been working with a business which supports children with autism to provide input on its business processes

The team is also creating relationships with business schools to offer mutually beneficial internships, both term time and summer, with a view to making a career in finance accessible to a range of people including those from a non-finance background.

## Engagement case study- installing an independent Chair at Borderlink

**How we engaged:** Monthly Board-level engagements, and regular operational meetings

**Engagement focus:** Recruitment of a new Board Chair

**Issue to be addressed:** In the early stages of our stewardship of the business we recognised the need for a strong Board Chair to enhance governance and provide strategic direction and oversight of the management team. The GH team were heavily involved in the recruitment process, engaging an external head-hunter to source the right candidate. With our recommendation a preferred candidate was put forward to the Board and executive team for vetting.

**Outcome:** A new independent Chair was installed to the Board

## Engagement case study- training and recruitment at Telcom

**How we engaged:** Monthly Board-level engagements, and regular operational meetings

**Engagement focus:** secure engineering and construction resource in a labour-constrained market

**Issue to be addressed:** Given the scale and speed at which fibre broadband is being deployed in the UK, skilled engineering and civils construction resource is increasingly scarce. Gresham's investment team recognised this from their interactions across the telecoms market. We encouraged to management team to create an engineering bootcamp (Recode). Recode, launched in August 2021 is free to applicants and targets unskilled labour or those seeking to enter a new profession.

**Outcome:** A total of 14 out of 16 participants have graduated from the Recode bootcamp and have been employed by Telcom since it started in August 2021.

## 9.6 UK Housing

In the UK, the majority of our engagement activity is with shared owners, the regulator of Social Housing and service providers:

- **Shared owners:** We regularly engage with shared owners. We use a mixture of customer surveys and feedback at the point of service, i.e., marketing, moving in, carrying out improvements and staircasing, to inform required service improvements and areas of concern.
- **Regulator:** We recently engaged with Homes England and the Greater London Authority on the UK Government's proposal for a new model of shared ownership lease. Following this consultation, Homes England have released a new model of shared ownership house and flat lease for homes in England, funded under the Affordable Homes Programme 2021-26.
- **Service providers:** We also engage frequently with service providers, such as builders, on matters of health and safety and the use of environmentally friendly building practices. We have also worked with The Good Economy to understand the quality of our relationships with some of the stakeholders we work closely with, including the accommodation manager for local authority housing and a representative from our retirement rental lettings partner.

In 2021, the UK Housing team committed to be an Early Adopter of the Good Economy's Sustainability Reporting Standard for Social Housing. The standard was developed to enable a meaningful comparison of sustainability reporting. We started reporting against this standard at the end of 2021.

In addition, in 2021 the team joined the Equity Impact Project (EIP), led by The Good Economy and Big Society Capital. These workshops aim to develop a set of globally aligned standards for best practice management, measurement and reporting of impact for equity investments in social and affordable housing. The input of the workshops will help to develop a product that encourages investment flows that make a positive contribution to delivering quality, affordable homes to people in need.

The team will be an early adopter of the EIP, commencing reporting against the standards in 2022.

### Interview with a shared owner from one our shared ownership properties<sup>1</sup>

Michael moved into a new ReSI Shared Ownership property with his wife in August 2021. In an interview with The Good Economy, Michael was very positive about the quality of his new home and said it is much higher quality than his previous accommodation – a one-bed flat that he rented. Michael emphasised the following as key benefits of his new home:

- Having been in his previous home for two and a half years, Michael feels much more settled in his new home and is looking forward to living there for many years
- Michael stated that this stability has had a positive impact on his wellbeing
- Moreover, having purchased an initial share of 40% of his home, he reported satisfaction at adding value to his own asset rather than renting.

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<sup>1</sup> Undertaken by The Good Economy

## Improved customer service for retirement rentals<sup>1</sup>

ReSI set up RPML (trading as 'My Future Living') as a housing manager to manage the retirement rental portfolio, taking over the role previously performed by Girlings. ReSI believed that residents would benefit from bringing housing management in-house.

While front-line staff remained the same and transitioned across from Girlings to RPML, TGE has heard that the removal of commercial sensitivities and ReSI's heightened control has led to operational improvements that have benefitted the staff and residents.

**Resident Voice:** TGE understands that residents are experiencing better service due to the digitalisation of services. Payments can now be made online, tenancy agreements can be signed digitally and there is a better communication channel for the logging of repairs and issues. This new system has only recently been rolled out, but the team are confident it will make a positive difference to the standard of service.

**Resident Support:** Since bringing the management of the retirement rental portfolio in-house, work is also underway to scale up the Tenancy Welfare Team. This team's responsibility is to make note of any potential personal issues (such as early signs of dementia) and to communicate with families about the resident's welfare.

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<sup>1</sup> Findings of The Good Economy as reported in their [ReSI Impact Report 2021](#)

## 10 Voting

Voting is an important part of our investment strategy for our public equity investments. The investment teams devote the necessary research, management time and resources to ensuring we make good voting decisions.

Voting decisions are based on our view of the course of action which will be in the best interests of the Fund's investors. Votes are informed by various sources including: our procedures, research, engagement with the company, discussions with other stakeholders and advisers, our internal discussions and consultations, and other relevant information.

We apply our Engagement and Voting Policy to our voting approach, but individual fund managers are responsible for individual investments. On occasion, the fund manager may deem it in the best interest of clients to vote outside policy requirements, in which case this will be discussed within the investment team to understand and assess justification for this decision.

We do not manage segregated or pooled accounts, therefore there is no voting policy in relation to such accounts.

### 10.1 Requirements - UK Public Equity Team

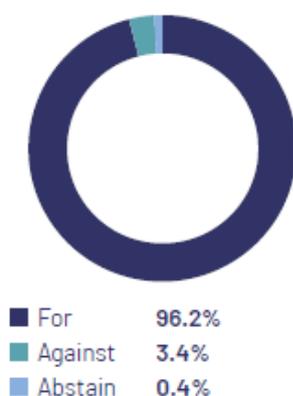
We do not have a set policy defining how voting decisions should be made on specific items for the UK Public Equity Team, but we have defined the following requirements:

1. Authority to allot shares – it is our policy to vote against anything over 33%.
2. Disapplication of pre-emption rights – it is our policy to vote against anything over 10%.
3. Authorise company to purchase own shares – it is our policy to vote against anything over 10%.
4. Political donations – it is our policy to vote against all political donations.

All resolutions are reviewed and voted on, unless there is an administrative impediment (e.g. power of attorney requirements, ineligibility due to participation in share placement).

### 10.2 Voting statistics

In 2021, we voted on 99.7% of all resolutions, voting for management recommendations in 96.2% of resolutions, 3.4% against, and had 0.4% abstentions.



We publish our voting records on our website which can be found [here](#).

### 10.3 Voting against management

If we plan to vote against management, we aim to engage with the company in advance, explain why we plan to vote against and look for ways to avoid that if possible. If a satisfactory outcome is not reached through this active dialogue with the company, we will typically tell the company in advance of our intention to abstain or vote against management and clarify the reasons grounding such intention.

Votes against by the UK team in 2021 were linked to:

- Resolutions not meeting our voting policy requirements
- Proposed takeovers which we did not feel fairly reflected the value of the business
- Remuneration policies which we did not believe incentivised the right management focus or outcomes for our investors

### 10.4 Proxy voting providers

The UK Public Equity team does not use any proxy voting advisory services, but does use proxy voting services to deliver voting decisions to the companies we invest in.

Votes are delivered by our middle office to a platform who then execute the vote in line with our instructions. In some cases, the vote is executed by the depositary, again in line with the instructions delivered by the middle office.

### 10.5 Stock lending

We do not engage in stock lending, ensuring we maintain control over how votes are cast.