

# Stewardship report

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For the year to 31 December 2020



Since 1857

**Gresham House**

*Specialist asset management*

April 2021

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# 1 Foreword

**Tony Dalwood**  
Chief Executive



**Welcome to our first 2020 Stewardship Code Report, it explains how we meet the twelve newly established stewardship principles, setting out our 2020 achievements, our focus for 2021 and how we have improved the integration of stewardship activities into our investment processes.**

Gresham House has set a strategic objective to become recognised leaders in sustainable investment (SI), which 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**

It has been an exciting year for Gresham House as we have enhanced and formalised our approach to sustainability. We have built on our strong sustainability credentials and nurtured a culture with sustainability at its heart.

We have developed new policies and processes to ensure the investment teams have the appropriate tools to integrate ESG analysis and engagement and voting activities into their investment processes. I am pleased to report just a few of our accomplishments during the last year:

1. Implemented our Sustainable Investment Framework - the basis of our SI approach.
2. Designed proprietary ESG Decision Tools that are used by our investment teams to assess potential, material ESG risks that need to be managed and mitigated.
3. Met with the management teams of almost all our publicly-listed companies on matters related to board composition, strategy, capital structure, culture, adequacy of reporting, risk management and material risks arising from social and environmental matters.
4. Contributed to boards as a member or observer on the majority of our private equity investments.
5. Required investee management teams of new investments in our Sustainable Infrastructure fund to implement sustainability and diversity & inclusion policies, to improve corporate sustainability commitments.
6. Published our first SI report to increase reporting and transparency. It details various case studies, measurements of what we have achieved and key milestones and can be found [here](#).

## **Building our culture**

Responsibility for sustainability starts from the top. The Management Committee continuously listens to global developments in these areas. We have focused on improving our understanding of the sustainable investment industry whilst developing the Group's approach and providing new investment solutions that meet our clients' sustainability objectives.

To lead by example, sustainability objectives now form part of all our objectives, ensuring that it permeates every aspect of the business. We also appointed a Sustainable Investment Director to lead development and co-ordination of this important work across the Group. The focus of this work will include enhancing our stewardship practices by increasing monitoring and reporting of outcomes from our engagement and voting activities with portfolio companies and other stakeholders.

### **Dedicated to positive change**

Along with our clients, we are aware of the most important sustainability drivers, especially climate change which we regard as a critical priority for the business to address. The climate agenda will continue to be a significant focus for ourselves and many of our clients in the lead up to the 26th UN Climate Change Conference of the Parties (COP26).

To provide clients with appropriate data, transparency, and contribution to climate change mitigation, we are starting on our journey to measuring and reducing our carbon footprint at a group and asset class level this year.

We will also be working closely with portfolio companies to assess their management of climate related risks and opportunities. Using our active ownership responsibilities, we will engage with appropriate stakeholders to reduce climate related risks and enhance contributions to climate change solutions across our asset divisions.

In addition to climate change, biodiversity loss is assuming greater importance. Protection of biodiversity is inextricably linked to the fight against climate change and therefore both topics need to be considered alongside one another on the path to net zero and achieving the Paris Agreement goals. We are currently exploring opportunities to invest in solutions that protect biodiversity and promote its development.

### **More to come**

We have achieved much in the past year and have well established plans to enhance our dedication to operating as a sustainable business and continue to make purposeful investments.

With our increasing focus on sustainability and the active approach we take to ownership, I am confident that we will continue to successfully support our stakeholders' financial and sustainability ambitions.

A handwritten signature in black ink, appearing to read 'Tony Dalwood', with a stylized, cursive script.

Tony Dalwood  
Chief Executive

## 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 and public 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 c.£4.0bn (as of 31 Dec 2020) of assets on behalf of institutions, family offices, charities and endowments, private individuals, and their advisers.

#### 2.2.1 Divisional allocation

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

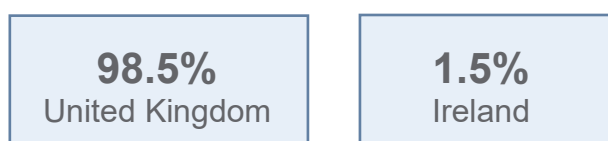


#### 2.2.2 Geographical allocation

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



#### Geographical split of AUM



<sup>1</sup> As of 31 December 2020.



## 2.2.3 Identification of sustainable investment approach

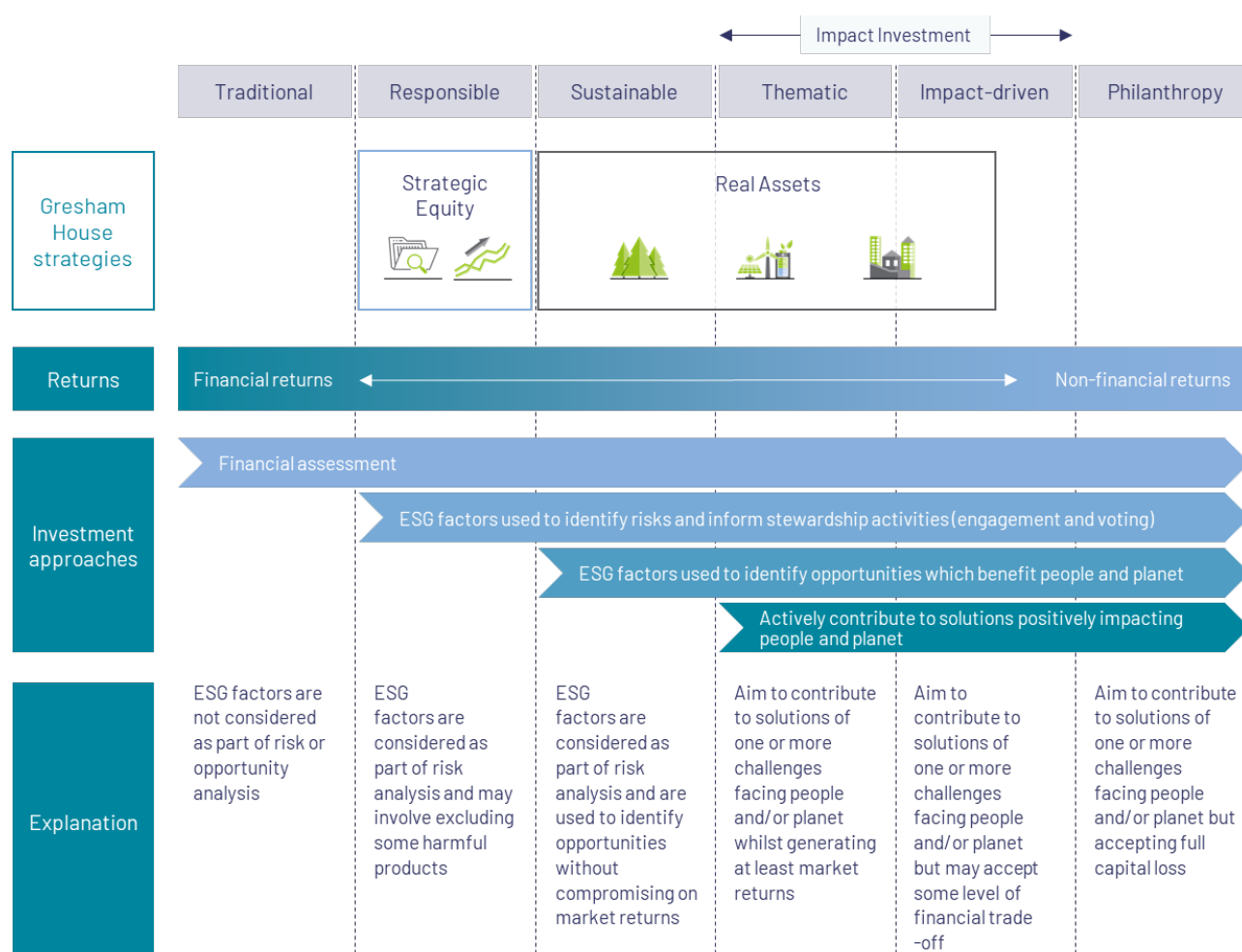
The Spectrum of Capital, as shown below, explains the difference between certain investment strategies and how ESG analysis and stewardship activities (engagement and voting) are used within the investment process.

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-driven'.

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.



## 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. 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:



#### **We are 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.



#### **We are 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.



#### **We are 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.



#### **We are Dynamic**

We act with purpose and urgency and are dedicated to creating shareholder and investor value through effective investment solutions that tackle some of the many environmental and social challenges.



#### **We are Empowered**

We have created a culture of empowerment that encourages individual flair and entrepreneurial thinking. This enables us to design and implement creative investment solutions with the end goal of building a sustainable future for all our stakeholders.



#### **We are Meritocratic**

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

## 3 Strategic direction in sustainability

### 3.1 GH25

Our five-year strategy, GH25, aims to further develop the business as a leading specialist alternative asset manager with sustainability at its heart, and double shareholder value. To support our financial targets, we have set five strategic targets, one of which is focused on sustainability (including stewardship activities):

***‘To become a recognised leader in sustainable investment, including ESG.’***

Since setting this strategic target, we have established a framework laying out how we will measure our success in achieving recognition and leadership in sustainable investment:

#### Recognition

- 01** External accreditation ratings are maintained, improved, or expanded
- 02** Feedback from shareholders, clients and investment consultants on sustainability credentials is high
- 03** Where relevant, specific ESG ratings on our funds are strong
- 04** A voice of authority in the media on sustainable investment matters

#### Leadership

- 01** Deliver investment solutions that contribute towards solving the largest environmental and social challenges, and provide transparent reporting and metrics on sustainability credentials for clients
- 02** Become an asset manager that investors choose to partner with to meet their sustainability objectives and net zero ambitions
- 03** Contribute to sustainability-focused forums and facilitate the development of best practice, scalable investment solutions and stakeholder collaboration
- 04** Lead by example through our internal commitments to sustainability

## 3.2 Targeting purposeful investments

2020 has been a busy year for Gresham House in embedding sustainability across all levels and divisions in the business. We are proud of the work we have put into building our capabilities in this area. Yet, we are also mindful of the fact that continuous improvement is the only way to ensure we meet the sustainable investment outcomes consistently.

Building on our progress in 2020 to formalise our approach to sustainable investment and incorporating our ESG Decision Tools (see section 6.5) into our investment process, our divisional sustainability plan can be categorised into six core pillars:



### **Environmental awareness, understanding and action**

Work with portfolio companies to assess climate change and environmental risks and opportunities.



### **Stakeholder engagement and supply chains**

Carry out supply chain mapping exercises to understand the potential positive and negative sustainability outcomes of our investments and continue to engage with stakeholders.



### **Diversity & Inclusion (D&I) awareness, understanding and action**

Work with portfolio companies to assess diversity and inclusion risks and opportunities.



### **Communication and transparency**

Expand our existing reporting and enhance resources for our stakeholders.



### **Accreditations and commitments**

Continue to meet industry body requirements whilst expanding our contributions to various sustainability-related groups.

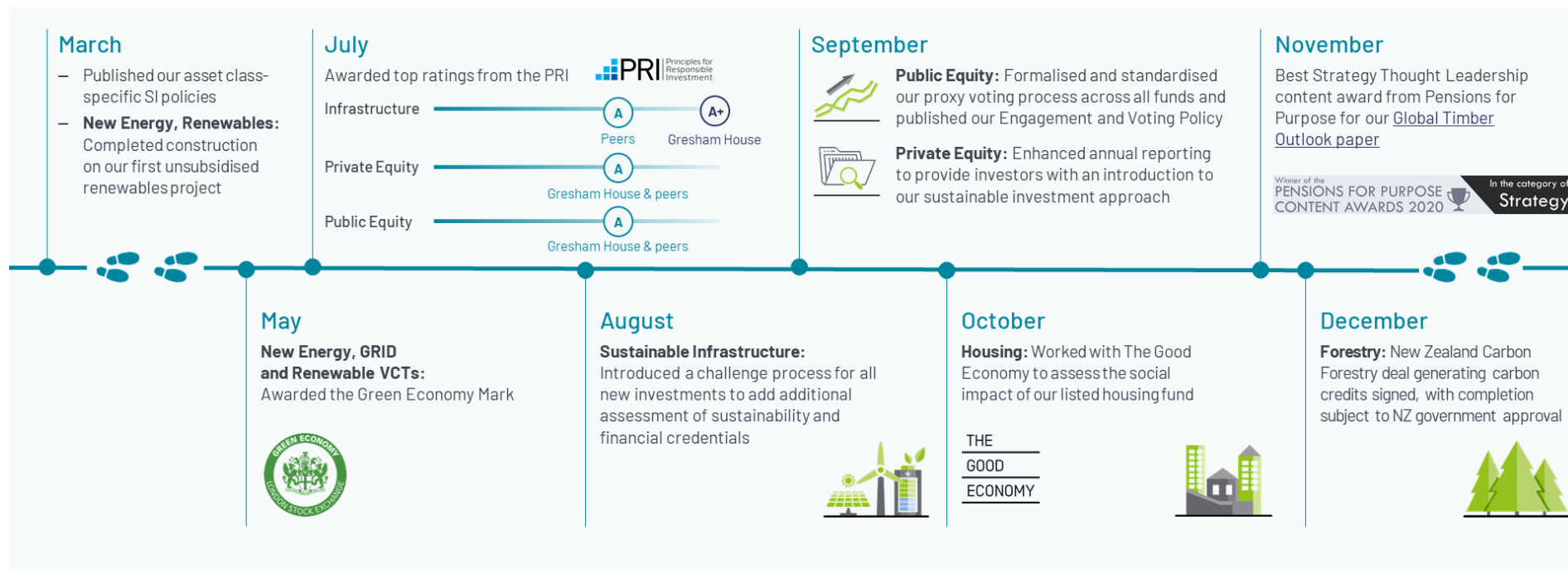


### **Policies, processes and system**

Expand our policy coverage and ensure continued appropriateness of existing policy commitments.

## 3.3 Achievements in 2020

### 3.3.1 Highlights



Gresham House is also proud to be involved in educational programmes that support our sustainability agenda. For example, we have:

- Facilitated educational site visits to forests in Scotland and Wales involving groups of up to 65 students from Bangor University. These provided the students with invaluable insights into commercial forestry and led to many fascinating debates about the role of plantation forests and the sustainable nature of this asset class.
- Worked with one of our operation and maintenance companies to install electric vehicle charge points on the solar sites they look after so they can charge the electric cars they use on site.
- Created a 'time bank' platform that will allow the Sustainable Infrastructure team and the wider Gresham House team to offer directed donation of team member time to specific causes, charities, or other initiatives.

### 3.3.2 Public Equity

Achievements in 2020:

- Formalised our Engagement and Voting Policy and standardised our stewardship process across funds
- Sought to achieve a cultural adoption of ESG and stewardship considerations, by regularly bringing them up during weekly meetings and Investment Committee meetings
- Development and refinement of the ESG Decision Tool (see section 6.5) and integration of this into the investment process and investment papers

Our 2021 action plan includes the following:

- Further integration of ESG Decision Tool, the Sustainable Investment Framework (see sections 6.4 and 6.5) and risk assessment into due diligence process and asset scoring framework
- Define ESG risk monitoring process and develop process to measure engagement and ESG related outcomes

### 3.3.3 Private Equity

Achievements in 2020:

- Built and integrated sustainable investment policy commitments and the ESG Decision Tool into the assessment of private equity assets prior to investment
- Investment Committee papers now include summary information from ESG analysis
- Completed an internal training session on building diversity and inclusion policies into our recruitment processes

For 2021, our plan includes the following:

- Finalise approach to diversity and inclusion (D&I) within portfolio and strengthening recruitment processes
- Work closely with portfolio companies to focus on ESG as driver of value creation and the opportunity to build a stronger business

### 3.3.4 Forestry

Achievements in 2020:

- Built and integrated sustainable investment policy commitments and the ESG Decision Tool into the assessment of forestry assets prior to investment
- Investment Committee papers now include a specific section on ESG considerations, including carbon analysis
- All client and fund reports now include a specific carbon and sustainability section

Briefly, our plan for 2021 includes:

- Launching of a UK fund mandated to deliver afforestation and sustainable forestry
- Improving in ESG monitoring and reporting
- Promoting the benefits of forestry through all Gresham House channels
- Attending and contributing to conferences promoting the benefits of forestry



### 3.3.5 New Energy

Achievements in 2020:

- Built and integrated sustainable investment policy commitments and the ESG Decision Tool into the assessment of New Energy assets prior to investment.
- Developed a supply chain policy for contractor and supplier relationships for our battery storage investments
- Engaged with National Grid to establish battery storage as a key contributor to the stability of the UK's electricity grid
- Increased levels of engagement with key battery suppliers in relation to their environmental and social practices and standards

Briefly, our plan for 2021 includes:

- Continuing to invest in the development and construction of subsidy free solar and wind and vital storage infrastructure over 2021
- Continuing engagement with key counterparties such as National Grid, OFGEM, the Department for Business, Energy & Industrial Strategy (BEIS) and others, communicating how the deployment of battery storage is needed to achieve decarbonisation goals
- Increasing active engagement with suppliers to influence sustainability practices and policies
- Continuing to assess how our projects can enhance the local environment, including developing biodiversity initiatives at our renewable energy sites

### 3.3.6 Sustainable Infrastructure

Achievements in 2020:

- Built out a more meaningful definition of sustainability, which adopts a more coherent assessment of how a real asset based solution can solve the most pressing challenges in today's society (e.g. digital inclusion/education/healthcare)
- ESG principals have been more deeply ingrained in our investment appraisal process via a better incorporation of methodologies to assess positive and negative externalities, using alignment to Sustainable Development Goals (SDGs), ESG assessment tools and initiation of internal challenge sessions
- Developed Sustainability and D&I policies for new portfolio companies to implement and seen the benefits of this with better diversity outcomes in recent portfolio company team hires

Briefly, our plan for 2021 includes:

- Identification of new tools to be embedded within the investment process to supplement the existing use of the ESG Decision Tool
- Encouraging all investee companies to adopt our sustainability and D&I policies
- Creation of a consistent carbon lifecycle measurement tool for every investment that allows us to track carbon savings and report and finalise additional sustainability metrics for each asset

### 3.3.7 Housing

Achievements in 2020:

- Formalised our approach to sustainable investment through the adoption of our Housing Sustainable Investment Policy
- Developed Shared Ownership Customer and Environmental Charters, aiming to drive best practice in the shared ownership sector. We are currently developing an ESG tool to be used on all Housing investments
- Became early adopters of The Good Economy's ("TGE") Sustainable Reporting Standard for Social Housing – encouraging best practice ESG reporting
- The Good Economy completed an independent evaluation of the impact of our listed housing assets
- Brought 171 new shared ownership homes into the affordable housing market for the first time
- Quantified our carbon emission from ReSI plc for the first time

Briefly, our plan for 2021 includes:

- Developing the ESG Decision Tool
- Identify measurement approach to outcome assessment in relation to social and environmental factors
- Launch a new affordable housing fund with a focus on social benefits

## 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.

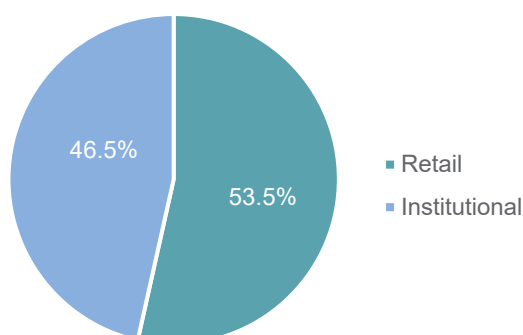
### 4.1 Type

We split our clients into:

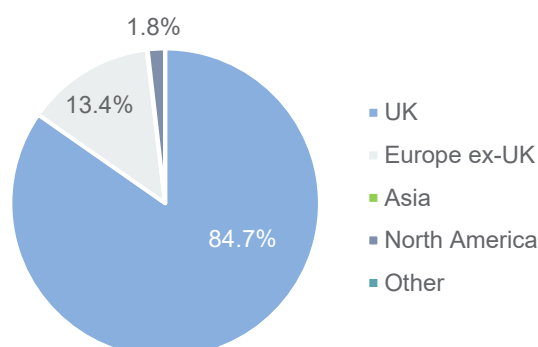
1. **Retail** - including direct and intermediated via wealth managers and Independent Financial Advisers (IFAs)
2. **'Institutional'** - including Pension Funds, Family Offices, Charities and Insurance Companies

The charts below show how our clients invest across our asset divisions and where our clients are based across the World.

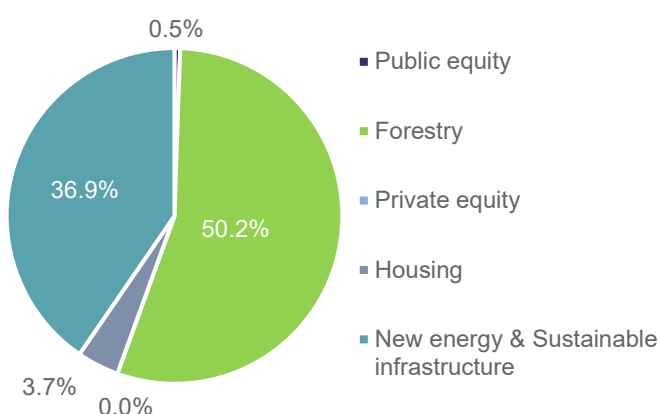
Investor type by AUM



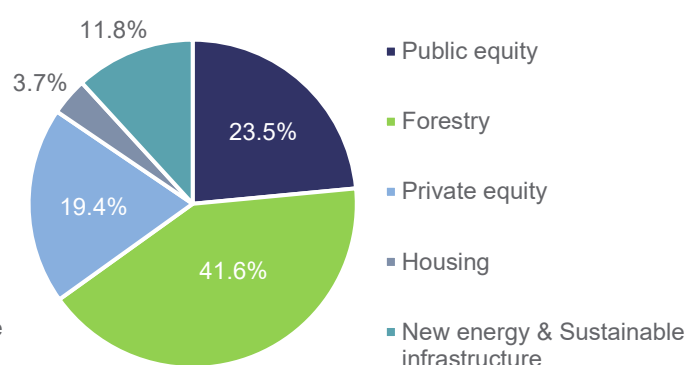
Geographical split of clients



Institutional AUM across asset divisions



Retail AUM across asset divisions



## 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.£2.1bn (31 Dec 2020) 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.

### Institutional

We manage c.£1.8bn (31 Dec 2020) of assets for Institutional clients (96% 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 also 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 September 2020, Investment Director, Brendan Gulston, the co-Fund Manager of the LF Gresham House UK Multi-Cap Income Fund, took part in an Equity Masterclass on AssetTv, including a panel discussion with fellow industry professionals on the UK's prospects as an investment environment.

## 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: Interests in investee companies or suppliers**

Employees of Gresham House may have interests in investee companies or suppliers that may create an incentive to act in ways that serve the interests of those entities or the employee to the detriment of Gresham House's clients.

Except with the approval of the Compliance Officer, no employee is permitted to serve as an employee, partner, officer, director, trustee of, or have a substantial interest in or business relationship with, an investee company (other than any affiliate or parent of Gresham House) that could create a divided loyalty or the appearance of one.

A member of staff invested in an entity, Company A, prior to becoming an employee of Gresham House. On joining the Firm, in line with existing procedures, this shareholding was disclosed. Company A was a service provider to one of the funds managed by Gresham House.

To avoid the perception of inordinate influence in the award for contracts, the employee was recused from all decisions relating to the award of contracts to Company A.

## **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                   | 10+ 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 with the support of our Sustainable Investing Committee (SIC) (see section 6.1 for further details) and the Sustainable Investment Director.

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. They have direct access to the very highest levels of Gresham House and report directly into a member of the Management Committee.

### 5.1 Performance management

To lead to a workforce committed and incentivised to support Gresham House's Sustainable Investment strategy, all employees are required to have a sustainability related performance objective in their annual objectives, and it is an area all employees will be assessed on as part of end of year review, pay and bonus discussions.

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.

### 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.

**134 hours of sustainable  
investment related training  
for staff in 2020**

Significant time and financial investments have been made into building up the sustainable investment awareness and knowledge of our staff throughout 2020. Training sessions throughout the year have included:

- Detailed overview of current ESG drivers and materiality considerations
- Asset class specific training between January and March.
- Speakers presenting on various themes, including editors from "ESG Clarity".
- Training on ESG and sustainability was also organised for the Management Committee in H2 2020 covering the Spectrum of Capital and the language around sustainability.
- SIC members presented at the weekly Gresham House calls during September and October.

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

## 5.3 Diversity and inclusion

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 and Inclusion policy](#) to formalise this philosophy which details our D&I 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. We are pleased with our progress in these areas and recognise this is an area that is constantly evolving and as such there is always more that can be done. We are exploring a number of further initiatives as we move through 2021 and beyond.

### 2020 Summary and achievements

- Women made up 39% of employees, an increase from 26% in 2017
- 32% of senior management roles are held by women<sup>2</sup>
- Committed to the #100BLACKINTERNS initiative - aims to offer Black students across the UK an opportunity to kick start a career in investment management through paid internships.
- Hired an apprentice through Leadership Through Sport and Business, a social mobility charity

<sup>2</sup> The percentage of women holding senior positions in the business, where senior positions are defined as the Management Committee, GHAM Board or unit heads.

## 5.4 Employee engagement

In 2020, we conducted our first 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 Management Committee to determine where we are succeeding and areas that need to be strengthened.

### *Highlights*

**92%** of our staff engaged with us for the completion of our recent employee survey.

**94%** of our staff would advocate Gresham House as a good place to work.

**93%** said the culture incorporates environmental and social considerations.

**85%** agreed that they were fully aware of all aspects of our ESG approach.

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 2021 and as we target meeting our objectives for GH25.

We expect to carry our similar staff surveys in the next few years and plan to incorporate more specific questions on sustainable investment, including stewardship activities, to assess how our approach has supported our understanding and management of stewardship.

## 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.

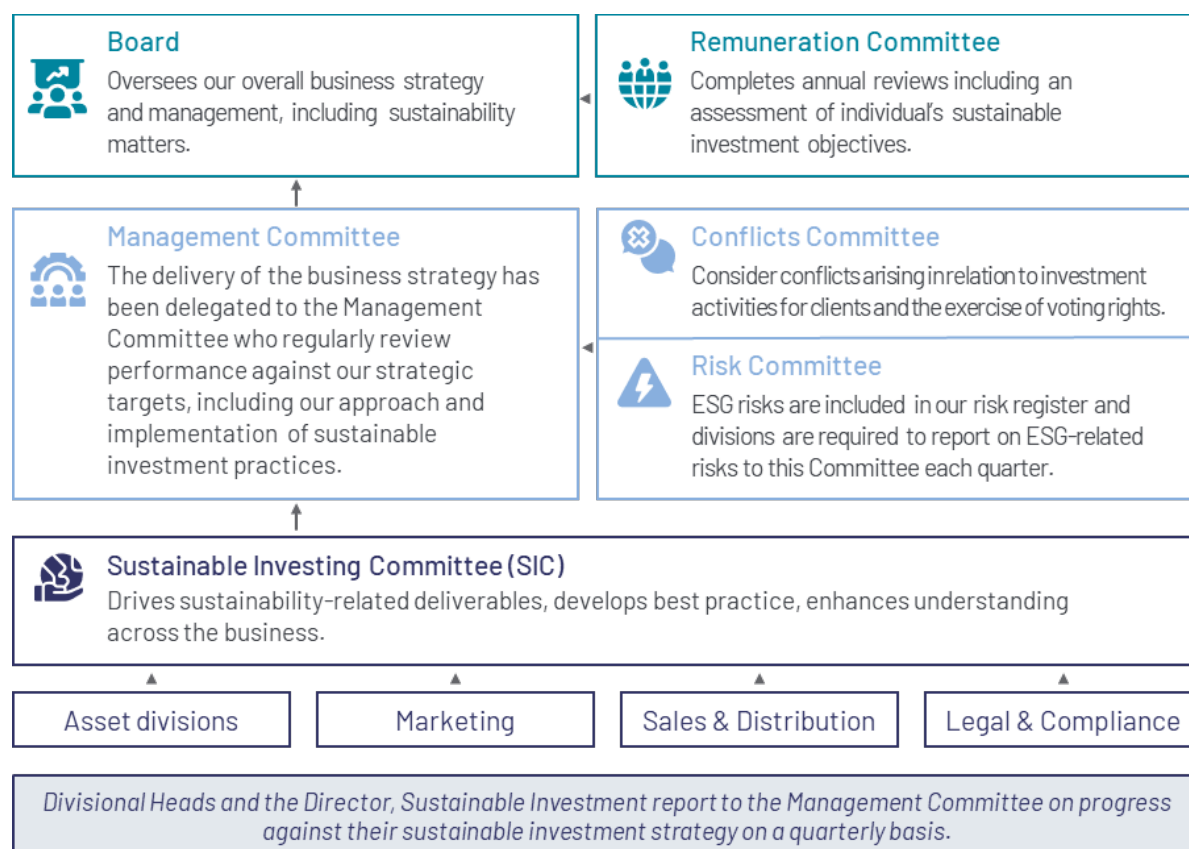
Our commitment is demonstrated through the integration of sustainable investment practices across our strategies, through our proactivity in seeking to make a positive social, economic, or environmental impact alongside delivering strong financial returns and by being a responsible and ethical employer.

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

- 01 Sustainable Investing Committee (SIC)
- 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.

These aspects are all managed within our sustainability governance structure, which is shown in the diagram below, including descriptions of each group's responsibilities in relation to our sustainable investment approach.



Further detail on our governance arrangements 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 Sustainable Investing Committee

The Sustainable Investing Committee (SIC) formed at the start of 2020 meet monthly and drive sustainability related deliverables, whilst providing a forum to share best practice, ideas, and education.

The SIC is chaired by the Sustainable Investment Director and has representation from the Gresham House Management Committee, each asset division, sales, and marketing. The SIC also has observers from the compliance and legal teams.

The purpose of the SIC includes providing oversight of the implementation of policy commitments, assessment of the continued appropriateness of sustainable investment tools and processes and driving the collation of measurement metrics and targets relating to our sustainable investment activities. The SIC will seek external expert advice and guidance as needed.



**Rebecca Craddock-Taylor**  
Director, Sustainable Investment  
and Chair of the SIC



**Bozkurt Aydinoglu**  
Investment Director,  
New Energy



**Peter Bachmann**  
Managing Director,  
Sustainable Infrastructure



**Lizzie Darbourne**  
Group Marketing Director



**Heather Fleming**  
Head of Institutional Business



**Matthew Giles**  
Investment Director,  
Forestry



**Edward Goldsworthy**  
Investment Manager,  
New Energy



**Andrew Hampshire**  
COO and CTO



**Stevie Ingamells**  
Associate Director,  
Sustainable Infrastructure



**Adam Khanbhai**  
Investment Director,  
Strategic Equity



**Thomas Makey**  
Investment Director,  
Gresham House Ventures



**Vitoria Mann**  
SIC observer,  
Risk and Compliance Manager



**Emily Saunders**  
SIC Secretary



**Alexandra Seeboruth**  
SIC observer,  
Compliance Analyst



**Joe Thomas**  
Investment Director,  
Housing

### *Milestone achievements of the SIC in 2020:*

1. Finalised the development ESG Decision Tools for each asset class (see section 6.5)
2. Submitted our first PRI response and were awarded the highest rating, A+, for Strategy and Governance and Infrastructure and an A rating for Public and Private Equity
3. Started developing a framework to better assess and measure the outcomes of our investments on environmental and societal factors

## 6.2 Sustainable investment commitments

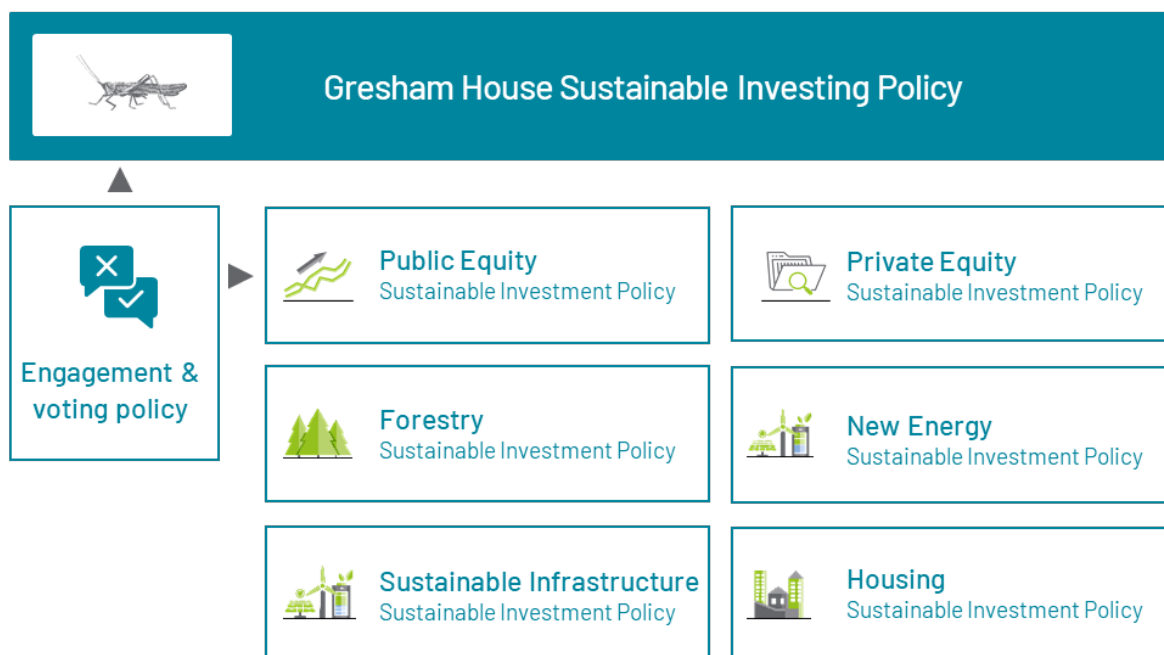
We will endeavour to:

- 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 along with asset specific sustainable investment policies ([link](#)). These policies describe our approach to sustainable investment and highlight our commitments to investing sustainably while meeting our overall business objectives.

### Policy Structure



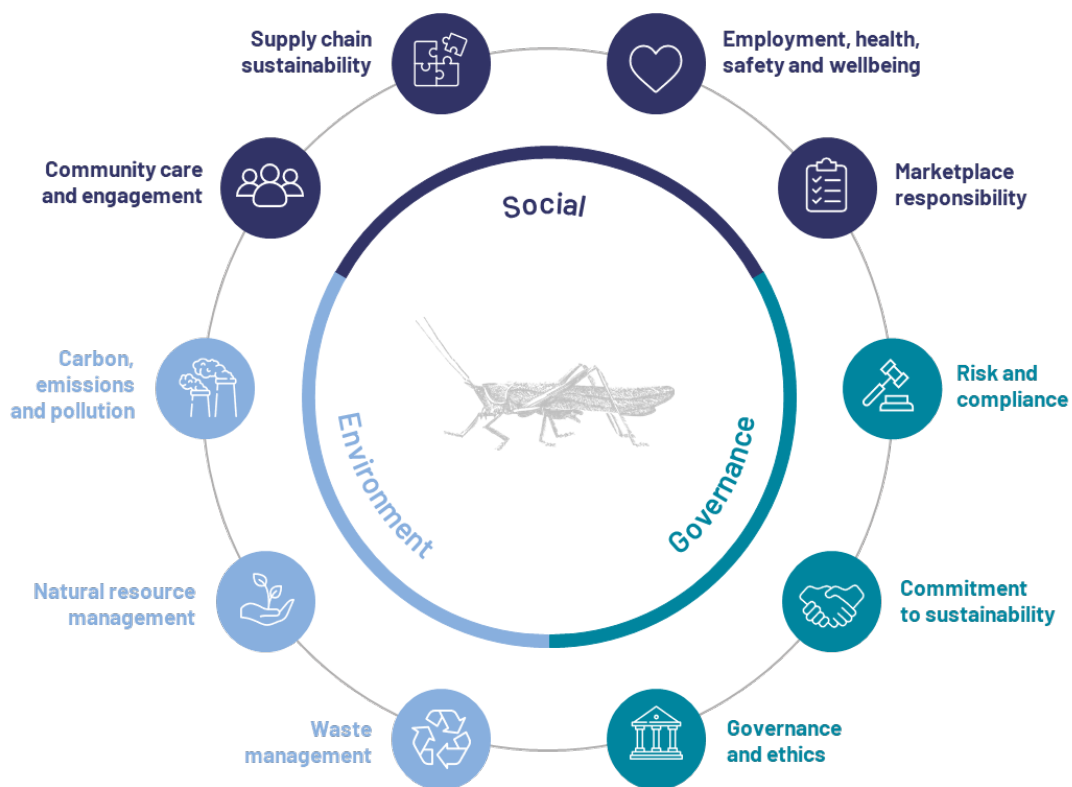


The table below sets out the information included in our policies.

| 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 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 section 6.4).</li> <li>The Gresham House Management Committee will assess adherence to the commitments set out in our Sustainable Investing Policy on an annual basis and report progress to the 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 quarterly to the Management Committee on how they are meeting the statements set out in their specific sustainable investment policy.</li> </ul>   |
| <b>Engagement &amp; Voting Policy</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> <li>The Public Equity divisional head reports quarterly to the Management Committee on voting decisions and engagement activities. All other divisional heads will also report to the Management Committee as part of their quarterly presentations on how they are using engagement activities to protect and enhance value.</li> </ul> |

## 6.4 Sustainable Investment Framework

We have developed a Sustainable Investment Framework (SIF), incorporating ten ESG themes - shown on the next page. 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.



We describe how the SIF is applied across our investment strategies later in this report (see Section 8).

## 6.5 ESG Decision Tools

Gresham House engaged a specialist consultant to develop an ESG Decision Tool (the 'Tool') for each asset class which supports the investment teams in implementing the commitments made in the sustainable investment policies. This Tool is currently in use in all divisions except for the Housing division which uses its own approach developed before being acquired by Gresham House. Work is currently ongoing to integrate the Housing Team's current approach with the group wide ESG Decision Tool and we expect this to be rolled out in 2021.

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.

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.



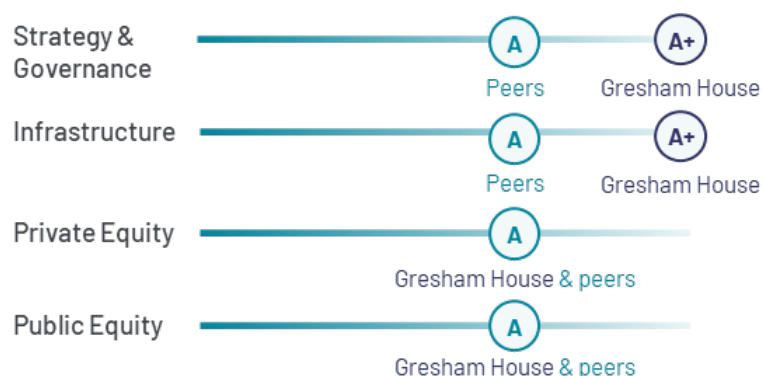
### Principles of Responsible Investment

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 were as follows:



UK Sustainable Investment  
and Finance Association

### 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.



### **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 2020, Pensions for Purpose awarded our Global Timber Outlook paper the Best Strategy Thought Leadership piece.

## **6.7 Engaging service providers**

In 2020, our use of service providers was limited to the engagement of a specialist consultancy to advise our Group on our ESG framework. The consultancy, with diverse and deep experience across sectors and clients, supported our teams in designing a tailored ESG Decision Tool for each of our asset classes (see Section 4.2.3 for more details).

We also engage a firm to execute our voting decisions. We did not use proxy advisors or investment consultants, or ESG rating providers. We outline the specifics of our engagement in the Section 7: Voting.

## 6.8 Monitoring and assurance

Gresham House is committed to continuous improvement in the execution of its sustainable investing approach. We have put in place a number of new policies and processes during 2020 that are being incorporated into investment processes across the business. The next stage of this work is developing processes that monitor adherence to policy commitments.

One of the main developments in this monitoring process has been establishing a process which monitors the implementation of the ESG Decision Tool. To fulfill this objective, for 2021 we are moving to a three-tier approach for ensure our investment teams, on a consistent basis, comply with our Sustainable Investment Framework (SIF) in all areas. This process will include three key stages:

### 01 Investment level

Every investment committee (IC) paper will includes 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 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 Director has oversight of the outputs of the ESG Decision Tool and the IC papers to assess how the framework is being complied with. Spot checks will be carried out on a selection of investments to assess the quality and consistency of the ESG Decision Tool completion and IC paper content.

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 Sustainable Investing Committee and the 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. As such, in 2021, we published our first 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 are prioritising the training of our investment teams to ensure they understand how ESG factors apply to their respective divisions and relevant asset classes. Their robust understanding of sustainability factors will be further reflected in the measuring of Key Performance Indicators ("KPIs") and in the ongoing engagement with clients.

## 7 ESG risk management

### 7.1 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. Our ERM framework has been designed to ensure the prompt and accurate identification, assessment, and management of internal and external risks as well as evaluation of emerging risks pertinent to the Group.

Our sustainability risk management model will be 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. New risks are identified based on industry or market wide developments or specific developments identified within Gresham House.

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.

A new risk identified under our ERM framework is the risk of adverse impact on our operations arising from climate change. For the purposes of our ERM framework, we assess climate-related risks and opportunities as part of the broader “ESG risk”.

We have also identified the Covid-19 pandemic as a macroeconomic risk that could have an adverse impact on our employee’s wellbeing and also our strategic objectives. These risks and our approach to managing them are described in more detail below.

### 7.2 Climate change

#### ***The impact of climate change to market activity***

We are mindful of the many significant drivers to the sustainability agenda, especially the impact of climate change, 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 see this as a challenge, but also as an opportunity to support the transition to a sustainable, low-carbon economy which 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.

#### ***Our asset classes positively contribute to the transition to a low carbon economy***

Investments in several of our asset classes aim to create tangible positive action towards meeting this global challenge. Across our Real Assets, we seek to invest in a way that supports global targets for decarbonisation, waste reduction and effective management of natural resources.

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 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 and built from sustainable materials wherever possible.

### ***Next steps***

In relation to climate change risks, we plan to carry out a project in the next year to understand and measure the exposures our business and our investments have to the physical and transitional risks that climate change will bring about.

There will then be a follow-through period where we seek to proactively engage with our investee companies to ensure they understand and appreciate the relevance of the climate change agenda to their business and to ours, and that they take a positive position in terms of implementing our recommendations and others where relevant.

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

### ***The impact of the Covid-19 on employee's wellbeing***

In the first half of 2020, we witnessed the unprecedented impact of the Covid-19 pandemic across the world. This has provided one of the most challenging environments for businesses to operate in and Gresham House approached this period from a position of balance sheet strength and stability. Protecting our staff's safety and wellbeing has been our priority during this period and their commitment has ensured that we were able to maintain business as usual.

Since the start of lockdown, Gresham House have been operating in accordance with Government guidelines and through our remote working procedures have maintained employees' safety and wellbeing, as well as ensured business continuity. No members of staff have been furloughed and all systems and processes continue to function as they would do in normal conditions.

### **Colleagues**

Employees were also consulted throughout the period and accommodations made to ensure staff were fully supported through what has been a most challenging time. This included granting employees extra days off to help deal with some of the mental and social challenges faced during the period, as well as having a companywide policy of no meetings on Friday afternoons.

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

### ***Key statistics:***

- 98% of employees felt satisfied with how Gresham House responded to the impact of Coronavirus on its people
- No staff were furloughed

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

The pandemic has led to market volatility in financial markets and has impacted business growth and investment valuations. Throughout this period of market volatility, we conducted reviews across all our investment strategies and portfolios to assess the impact of the pandemic on them and ensure that communications to shareholders were reflective of the identified risks.

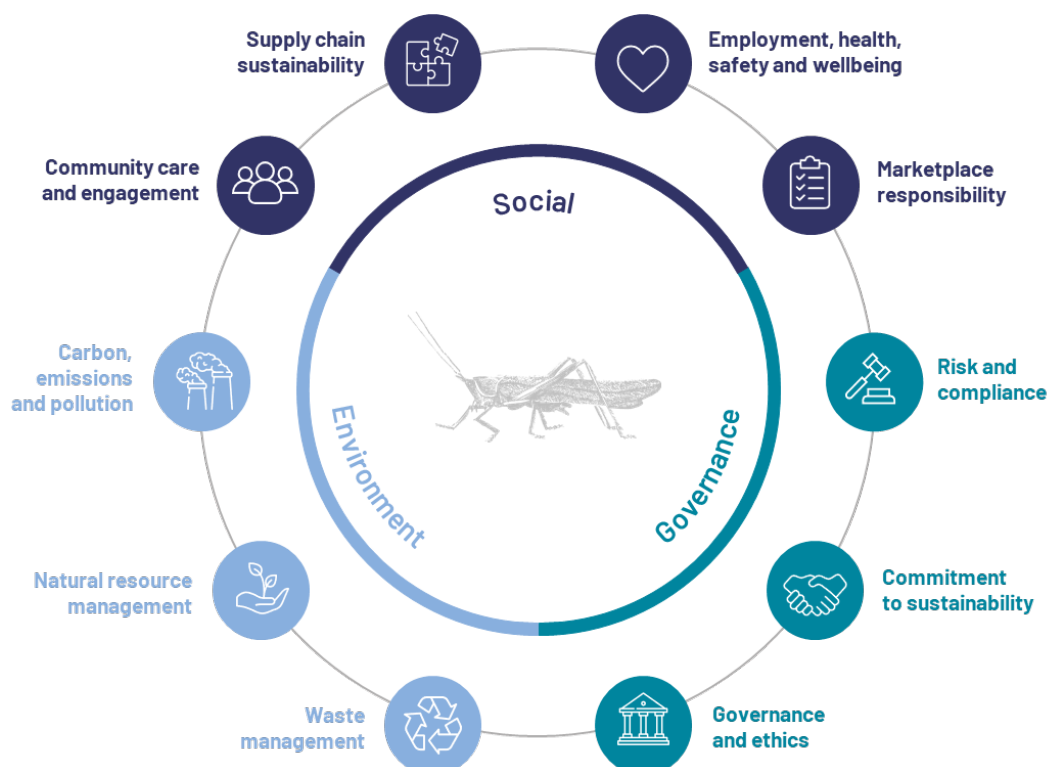
We have communicated with our stakeholders extensively over the past year. In April 2020, a month after the country went into lockdown, our CEO issued an update to shareholders and other stakeholders, highlighting the steps Gresham House had taken to deal with the repercussions. In the letter, the CEO confirmed that, as with most other businesses, Gresham House's team of c.120 employees had transitioned smoothly to working from home with all parts of the business including investor relations, control functions and investment teams carrying on their functions with minimal disruption.



## 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 involve the integration of ESG factors as well as the application of active stewardship responsibilities (covered in sections 9 and 10).

The themes shown in the figure below (our Sustainable Investment Framework (SIF)) are used by all asset divisions as the basis for the ESG assessment during the due diligence stages before an investment decision is made, as well as being used as a way to structure engagement activity carried out throughout the holding period.



The SIF captures the ten themes we want our investments to be carefully assessed against. The asset class specific ESG Decision Tools builds on these themes by supporting 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 Sustainable Investment Director 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 (98.5% as at 31 December 2020) are based in the UK, hence our reporting focuses on how ESG integration and stewardship activities are integrated across our UK assets. Our non-UK assets are forests based in Ireland (1.5% as at 31 December 2020) and are broadly managed in line with our UK assets.

All our Forestry assets are subject to the commitments set out in our Forestry Sustainable Investment Policy, including the use of our ESG Decision Tool, and all our forests are managed in line with regional forestry standards – our UK assets are managed in line with the UK Forestry Standard (UKFS) and our Irish assets are managed in line with the Irish National Forest Standard (INFS).

We aim to certify all our forests which ensure they are managed sustainably and must meet clearly defined standards or criteria of sustainability across ESG factors. Most of our forestry assets are certified by the Forestry Stewardship Council (FSC) and we are currently awaiting certification of part of our Irish forestry against the Programme for the Endorsement of Forest Certification (PEFC) – the certification of some of our Irish assets were delayed in 2020 due to Covid-19 restrictions.

## 8.2 Strategic Equity

### Approach

Our 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 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.

The E and S (Environmental and Social) 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 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, 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.

## Sustainable Investment Framework Application




### Environmental

|   |   |
|---|---|
| Carbon, emissions and pollution  | GHG emissions and climate change impacts, energy management, pollution prevention and control, air quality management |
| Natural resources management     | Water use, biodiversity and natural resources management  |
| Waste management                 | Waste reduction; sustainable management of waste  |

### Social

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

### Governance

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

## Private Equity Case Study: Rockfish Seafood Restaurants

Investment date: December 2018

Investment amount: £1.5m

**ROCKFISH**  
tomorrow's fish are still in the sea

Rockfish is a chain of eight seafood restaurants based in the South West, from Poole to Plymouth. Their restaurant in Brixham purchases fish from the local market and prepares the daily catch for use in all the restaurants.

### Evaluation

### Due diligence

### 100 Day Plan

Identified potential risks and opportunities to differentiate the business against competitors:

#### **S: Supply Chain Sustainability**

- Use own fishing boats to improve traceability of fish stocks
- Where and how is the fish sourced from other suppliers

#### **S: Employment, Health & Safety, Wellbeing**

- Minimum wage/zero-hour contracts
- Allergies, food preparation & storage

#### **E: Waste Management**

- Food waste and plastic usage
- Use own fishing boats to provide transparency of fish wasted

Immediate focus on risk management around fish wastage and developing a Risk and Audit Committee.

Then supported opportunities to differentiate:

- **Create a vertically integrated supply chain.**
- **Reduce plastic usage.**

## Holding Period

Focus on continuous improvement in sustainability of supply chains. Covid-19 has also required actions:

### **Staff safety:**

- Increased number of staff to allow for continuous cleaning.
- Reduced number of chefs to allow social distancing.
- App-based ordering.

### **Customer safety**

- Reduced capacity inside but used more outdoor space.
- Reduced contact with staff with app-based ordering.

### **Local food supply and job protection**

- Turned fish room into retail offering keeping local supply chain and fish room staff working.

## Outcomes

1. Sponsored specific fishing boats to allow products sold to be traced to where they were caught
2. Allow menu to change to include what has been caught each day reducing food wastage
3. Reduced use of plastic and committed to remove all single plastic use
4. Sponsored local projects to promote the reduction of plastic usage e.g., beach clean ups and making kids packs 'Ocean Protector' themed
5. Regularly assess compliance with minimum wages
6. Ensure appropriate labelling for allergens on menus e.g., gluten free.

## 8.3 Forestry

### Approach

Our Forestry investments are very long term 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, 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 to ensure it is or can be certified to an international standard, and/or to a national certification standard, and then assessed using the ESG Decision Tool to uncover material ESG risks.

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

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. Our certified sites are independently assessed by the appointed auditors and we conduct our own checks against agreed standards 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                   |  | Social                                    |   | Governance                   |   |
|---------------------------------|--|---|---|------------------------------|---|
| Carbon, emissions and pollution | Forest carbon sequestration optimisation; low-embodied-carbon output, pesticide minimisation | Employment, health, safety and well-being | Workers' rights and employment conditions: robust H&S, equality, living wages and training            | Governance and ethics        | Good forestry management objectives and implementation; ethics policies and accountability                                  |
| Natural resources management    | Optimisation of biodiversity, water, heritage and visual landscape management                | Marketplace responsibility                | Optimisation of sustainable forestry benefits via implementation of good forestry principles          | Risk and compliance          | Robust risk and compliance management   |
| Waste management                | Sustainable management of waste arising from forestry operations                             | Supply chain sustainability               | Sustainability capability of management contractors; policy led selection of less impactful inputs    | Commitment to sustainability | Monitoring and enhancement of positive impacts across the portfolio; proactive management of potential negative ESG impacts |
|                                 |  | Community care and engagement             | Good practice community relations: respect local rights; management of impacts, complaints and access |                              |   |

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

- 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. 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.
- As part of our certification schemes and our sustainability investing practices, we aim to reduce our use of herbicides/pesticides to the minimum. We usually use herbicides in the initial stage of growing new trees to protect the trees' growth.
- 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 also conduct regular monitoring of ESG risks, opportunities, and performance in our investments and over time will prepare comparative 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 2020 Outcomes

- 9 million** trees planting, through restocking and new forest development<sup>3</sup>
- 98.8%** of timber sold was certified by the Forestry Stewardship Council
- 720,000 petrol cars removed from the road** the amount of carbon equivalent that our forests sequestered in 2020<sup>4</sup>

<sup>3</sup> Based on 1,100 trees per hectare for broadleaves, 2,700 per hectare for conifer

<sup>4</sup> Woodland carbon code, Gresham House and Carbon Trust conversion factors



## 8.4 New Energy and Sustainable Infrastructure

### 8.4.1 New Energy

Our New Energy Division (Wind, Solar and Battery Storage) 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. Compliance with planning conditions is stringently adhered to and monitored. We are currently assessing how we can enhance positive environmental and social impacts of our projects.

### Sustainable Investment Framework application

|  <b>Environmental</b>               |   |  <b>Social</b>                                |  |  <b>Governance</b>               |  |
|--|---|--|--|---|--|
| Carbon, emissions and pollution<br> | <i>Optimal contribution to low carbon energy generation in the UK</i>                                     | Employment, health, safety and well-being<br> | <i>First class H&amp;S system; site safety policy</i>                  | Governance and ethics<br>        | <i>Governance good practice; strong business ethics management and culture</i> |
| Natural resources management<br>    | <i>Visual impact and biodiversity management</i>  | Marketplace responsibility<br>                | <i>Maximum uptime and minimal local disruption</i>                     | Risk and compliance<br>          | <i>Robust risk and compliance management</i>                                   |
| Waste management<br>                | <i>Waste reduction and sustainable management of waste in construction, operation and decommissioning</i> | Supply chain sustainability<br>               | <i>Robust policy relating to materials impacts, quality and ethics</i> | Commitment to sustainability<br> | <i>Continuing enhancement of the portfolio and its impacts</i>                 |
|  |   | Community care and engagement<br>             | <i>Good practice consultation; local investment strategy</i>           |   |  |

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 facilitate educational programmes and participate in community led initiatives in order 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 will be assessed as part of this process and the analysis will form part of our investment decision making, alongside other due diligence reports.

### New Energy's 2020 Outcomes

**485,000MWh**

renewable electricity generated

- equivalent to over 135,500 homes powered
- avoiding over 216,000 tonnes of CO<sub>2</sub><sup>5</sup>
- equivalent to removing over 100,000 cars from the UK's roads each year<sup>6</sup>

**£394,000**

paid to community benefit funds each year, supporting various SDGs

**170,000MWh**

of energy discharged into National Grid from our battery storage sites per year<sup>7</sup>

Equivalent to c.47,000 homes powered each year

*(Gresham House estimations, assuming batteries are operated in a continuous trading mode throughout the year)*

## 8.4.2 Sustainable Infrastructure

The Sustainable Infrastructure division invests in real assets that help to address key sustainability challenges and provide innovative solutions that enable a new, more sustainable way of living, while simultaneously seeking to achieve strong risk-adjusted financial returns.

The division invests across six thematic sub-sectors:



### Decarbonisation

the transition to a low carbon energy system



### Waste Solutions

closed loop pollution and waste management



### 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

<sup>5</sup> DUKES 2020, Assuming 446 tonnes of CO<sub>2</sub> per GWh of electricity supplied

<sup>6</sup> Assuming average annual mileage of UK car in 2019 and Carbon Trust conversion factors

<sup>7</sup> Estimated by Gresham House assuming the batteries are operated in a continuous trading mode throughout the year



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.

### **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                   |  | Social                                    |   | Governance                   |   |
|---------------------------------|--|---|---|------------------------------|---|
| Carbon, emissions and pollution | Facilitating transition to a low carbon economy; innovative pollution prevention systems; land use efficiency in food production | Employment, health, safety and well-being | Creation of quality local jobs; robust H&S systems; community safety  | Governance and ethics        | Good practice governance; sound business ethics management and culture  |
| Natural resources management    | Biodiversity and local environmental impact management; resource efficiency and use of more sustainable input resources          | Marketplace responsibility                | Design for positive outcomes, safety, quality, wellbeing, inclusiveness and durability  | Risk and compliance          | Robust risk and compliance management; monitoring of regulatory and policy change                             |
| Waste management                | Waste reduction, sustainable waste management and circular economy   | Supply chain sustainability               | Robust sourcing policy including: environment, ethics, quality and contribution to the local economy                          | Commitment to sustainability | Clear objectives for positive social and/or environmental outcome delivery alongside robust financial returns |
|                                 |  | Community care and engagement             | Understanding and acting on local stakeholder needs and concerns; transparent communications and supporting the local economy |                              |   |

### Sustainable Infrastructure Case Study – Fischer Farms

Fischer Farms Limited (FFL) is an innovative agritech<sup>8</sup> business that seeks to optimise growing conditions and highly automated harvesting processes to create gourmet produce at industrial scale.

Gresham House was particularly attracted to the business model of FFL, and its link to our sustainable investing ethos. A number of factors made this investment proposition attractive:

- Platform opportunity to build multiple indoor, controlled environment ‘vertical farm’ projects, to grow leafy greens and herbs
- Strong pipeline based on established relationship with supermarket supplier to off-take produce
- Potential future opportunities for additional >£50m deployed over three years
- Fischer Farms’ operations have several measurable environmental benefits when compared to field grown crops:



#### Natural Resource Management

- **Increased land efficiency:** 1 acre needed versus 250 acres if grown in fields
- **Reduced water use:** 90-95% less water required
- **No pesticides, herbicides or insecticides**
  - Bio-secure facilities excludes the majority of germs and pests.
  - Closed system --> limited “run-off” into wider ecosystems and waterways.
- **Protection against changing weather patterns**
  - Increased yields and certainty of crop volumes
  - 75 harvests p.a. vs. 6 harvests p.a.



#### Carbon emissions and pollutions

- **Reduced food miles:** year-round production --> no need to import leafy greens



#### Waste Management

- **Longer shelf life:** 7 to 10 days

Gresham House, through its British Strategic Investment Fund LP (BSIF), made its first investment into FFL in 2018 and increased its investment in 2020 and will do so again in 2021 to build larger, follow-on farms

<sup>8</sup> ‘Agritech’ = Agricultural Technology.

## 8.5 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 affordable housing challenge.

Each fund aims to deliver stable and secured inflation linked returns whilst providing social and environmental benefits to our residents, the local community, and the wider economy. Our funds can invest through 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 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.

### 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.

### 03 Execution

More detailed review of previously identified fundamentals 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                   |  | Social                                    |  | Governance                   |   |
|---------------------------------|--|---|--|------------------------------|---|
| Carbon, emissions and pollution | Energy efficient housing; renewable energy where possible; access to public transport where available                  | Employment, health, safety and well-being | Safety and well-being of residents a priority; application of best practice standards; quality employment  | Governance and ethics        | Good practice governance; strong business ethics management and culture                                       |
| Natural resources management    | Water saving measures where possible; regeneration of brownfield sites   | Marketplace responsibility                | Affordability and quality in all tenure types; widening access to home ownership; proactive protection of residents' interests and customer charters | Risk and compliance          | Robust risk and compliance management; monitoring of regulatory and policy change                             |
| Waste management                | Where feasible sustainable management of waste arising from refurbishment, maintenance and management of the portfolio | Supply chain sustainability               | Sourcing policy ensures management teams have required knowledge of local areas and meet regulatory requirements                                     | Commitment to sustainability | Clear objectives for positive social and/or environmental outcome delivery alongside robust financial returns |
|                                 |  | Community care and engagement             | Contributing to community stability and environmental quality; housing that is accessible to jobs and amenities                                      |                              |   |

Our 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.

### Informing Best Practice in Shared Ownership Housing

In 2020, our Housing Teams, in response to some of the social and economic issues faced by stakeholders in the shared ownership market developed two Charters - the Shared Ownership Customer Charter (SOCC) and Shared Ownership Environmental Charter (SOEC).

These documents are unique in their intention to improve practices across the shared ownership sector whilst providing benefits to both shared owners and our investors. We believe these charters set out best practice in delivering shared ownership housing schemes and demonstrate to the industry it is possible to both provide a high-quality service to shared owners and generate attractive returns for investors.

We are committed to going beyond minimum industry standards to become the best in class shared ownership provider and a leader in creating a new era for the shared ownership sector as a whole by driving best practice, thereby improving the standards of all providers. We focus on affordability, communicate effectively, we do not have hidden costs, we do make sure that those building the properties are held to account where there are defects, we have long leases and will not charge for lease extensions.

We believe that by leading best practice across the industries in which we invest we can better align investors with broader objectives of society.

## ***Housing Case Study***

During the year, 132 homes at Clapham Park were purchased through Residential Secured Income plc's registered provider of social housing, ReSI Housing Limited, adding to ReSI's existing portfolio of shared ownership homes portfolio. Each of the shared ownership homes are EPC rated B or above. In addition:

- Each property contains full double-glazed windows throughout: ensuring heat leakage is minimised, reducing carbon usage and shared owner energy bills.
- Equipped with low-energy downlights: reducing electricity usage, carbon, and shared owner energy bills.
- Cycle storage provided for all residents: providing shared owners a secure place to store their bicycles, enabling and encouraging the switch from motor vehicles to cycling - a low environmental impact method of transport.
- Maintained communal gardens: increasing quality of life for shared owners through dedicated green space.
- Outdoor (balcony) space: increasing quality of life for shared owners through private outdoor space.
- Covid friendly workspaces: we provide new homes with room that can be used as a home working space if required. This is increasingly important in the current working environment post Covid-19.

## 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 – 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 made. 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, M&A<sup>9</sup> 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 twice 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.

**95.5%**

Met with the management teams of nearly all investee companies in 2020

#### 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 typically identify three or four key strategic milestones that are bespoke to the organisation and important to the development of the business, aiming to keep the directors focused and ensure continued progress.

Objectives may change over time depending on several factors, including business priorities, market forces and stakeholder considerations. In 2020, the majority of our engagement was centred on two broad themes:

- Improving governance and board composition
- Aligning managing remuneration incentives with the interests of shareholders

Identified objectives provide a framework which forms the basis of our discussions with companies during regular scheduled engagements.

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<sup>9</sup> M&A = Mergers and Acquisitions

### 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. Material issues are also reported to clients.

### 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 dependant on its corporate performance and governance standards. The level of engagement is calibrated based on our assessment of each company, the risks, opportunities, and probability of achieving change.

### 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 engage meaningfully with us 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.



### ***Escalation Case Study A***

We invested in a listed business taking a long-term view on the potential for shareholder value creation. The company received a takeover approach from a private equity investor at a time when UK smaller company share prices were depressed due to concerns over the implications of the Brexit vote. The Board of the company decided to recommend the takeover offer at a price that was substantially below our view of the long-term value potential of the company and that ignored the potential growth prospects from a new product. A shareholder resolution was sought at a general meeting requesting our vote on a scheme of arrangement to accept the takeover. We did not agree to the takeover because we felt the price undervalued the company and therefore voted against the resolution.

Unfortunately, however, our stake was ultimately insufficient to block the takeover.

### ***Escalation Case Study B***

We were invested in a listed business that was subject to a takeover offer. We were not engaged in advance to provide guidance on the parameters we would be prepared to support as part of the transaction. The company then announced the takeover offer, the consideration for which was paper in another listed company that we believed was overvalued. As such we felt this would be a bad outcome for investors in the business. We engaged with the buyer and advisors of both businesses to state that we would not support the offer. As such they withdrew the public announcement, and the takeover did not go ahead.

#### **9.1.5 Collaboration**

Across our public and private equity divisions, our primary means of engagement is directly with portfolio companies. This is again driven by the relatively small size of the companies we invest in and our relative significant holding in those companies.

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 Example***

In one such instance, Gresham House was a significant shareholder in a company that had been underperforming. Another investor proposed board changes which we considered and determined would be in the best interests of shareholders. We therefore supported that proposal.



## 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.

We will almost always take a board seat or become 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.

**100%**

engaged with all our portfolio companies in 2020.

**81%**

contributed to boards as a member or observer on the majority of our portfolio companies.

### 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 hold period (and up to a year post investment). Tactically, this means focussing on near term changes which may be required to 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.

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.

### 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 are all unique in the challenges they face.

## 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 we have engaged include the Scottish Cabinet Secretary for Rural Economy and Tourism and Natural Resources Wales (NRW). We also regularly engage with CONFOR- the industry association for sustainable forestry in the UK.

We sit on the landowners' representative board for the Forest Industry Safety Accord (FISA) who 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.

The forest managers we employ to manage a forest have their own schemes of certification and they are externally monitored by the FSC. 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.

### *Industry Contributions*

1. We held a "Forestry Teach-In" event to provide an educational session to discuss the asset class and its environmental benefits. This included guest speakers, including one from the PRI (Simon Whistler), and a video recording has been made available on our website summarising the event.
2. Our Global Timber Outlook won the 2020 Pensions for Purpose award for Strategy Thought Leadership. The report looks at the drivers behind global timber consumption and how it can contribute to the transition to the low carbon economy.

## 9.4 New Energy and Sustainable Infrastructure

Our engagement approach across this asset division differs slightly, as explained below.

### 9.4.1 New Energy – Battery Storage

The engagement approach in relation to the battery storage activities is primarily focused on our work with developers, landowners, planning authorities, contractors and equipment suppliers during the development and contracting/procurement/construction process. During the operational phase of the project, we will engage with a number of stakeholders including local communities and the UK National Grid.

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

### 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.

### 9.4.3 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. During the initial period after investment, we will 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 will 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*

We sponsored the Impacting Investing Summit 2019 conference in London, organised by DG Publishing on behalf of Pensions for Purpose, where we presented on three sustainable investing themes within infrastructure: vertical farming, waste, and battery storage.

In addition, the Managing Director of the Sustainable Infrastructure division acted as a Judge and Mentor of the Cambridge University's Cambridge Institute of Sustainability Leadership (CISL) Accelerator program and also provided a similar role for the CleanTech Challenge which is one of the world's leading university student focussed cleantech competitions.

## 9.5 Housing

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 responded to the Ministry of Homes Communities and Local Government consultation on new shared ownership homes. Final details are yet to be produced, but we are supportive of the initiatives to make shared ownership open to as many households as possible subject to acceptable risk-adjusted returns being maintained.
- **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 addition, the Housing team have committed to be an Early Adopter of the Good Economy's Sustainability Reporting Standard for Social Housing. The investment team is participating in workshops to develop a sector standard that will enable a meaningful comparison of sustainability reporting. We have committed to report against the final version of the standard on an annual basis for our housing investments going forward.

### *Interview with a shared owner from one of our shared ownership properties<sup>10</sup>*

A single mother of two children, Julie, had been renting in the local area for ten years before purchasing her shared ownership flat. Buying on the open market was out of reach for Julie, but after inheriting some money she was able to afford a shared ownership property. The Good Economy heard how her home gave her stability within the area which was particularly important for her children who were at college nearby. Julie emphasised the following as key benefits of her home:

- High quality home in nice area with practical layout and good transport links
- Savings of c. £300 per month compared to previous rented accommodation
- Helpful sales team and concierge service.

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<sup>10</sup> Carried out by The Good Economy.

## 10 Voting

Voting is an important part of our investment strategy for our public equity investments. The investment team devotes 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 alongside our voting requirements (see below) 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.

There is a single approach to exercising our voting rights, and our voting policy does not differ across funds or geographies. We do not manage segregated or pooled accounts, therefore there is no voting policy in relation to such accounts.

### 10.1 Requirements

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

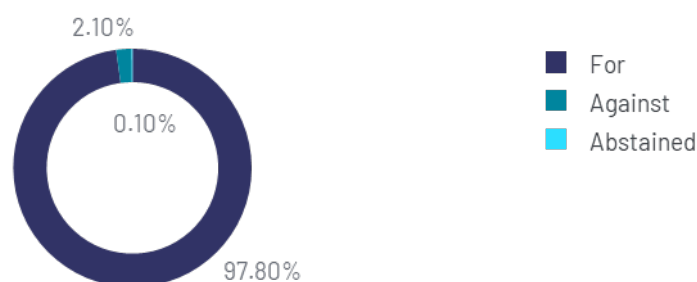
1. Authority to allot shares – it is our policy to vote against anything over 33%.
2. Disapplication of pre-emption rights – it is our policy to vote against anything over 10%.
3. Authorise company to purchase own shares – it is our policy to vote against anything over 10%.
4. Political donations – it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

In 2020, we voted 97.8% for management recommendations, 2.1% against, and had 0.1% abstentions.

#### Voting decisions



We do not currently publish our voting records, but we are discussing how we can improve our reporting processes to provide greater transparency in future.

## 10.3 Voting against management

If we plan to vote against management, we will 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.

The most common example where we would normally vote against the board is where the resolution breaches our requirements summarised above.

## 10.4 Proxy voting providers

We do not use any proxy voting advisory services, but we usually 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.

## 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.