Gresham House
Specialist investment

Sustainable investment update:

Public Equity

April 2024

Strategic Equity

We target superior long-term returns in a range of public and private equity investments by applying an active private equity approach, engaging with companies and applying rigorous due diligence, developing a deep understanding of each investment.

How we integrate ESG

Our Strategic Equity investments primarily sit within the Responsible category of our **Spectrum of Capital** with ESG integrated into the investment process for all our investments and engagement being a key mechanism with which to enact our active ownership commitments.

ESG integration into the investment process for our Strategic Equity division

1. Initial Appraisal

ESG risks and opportunities are considered. This may lead to further investigation at due diligence stage. If certain risks are unlikely to be managed or mitigated, we may not proceed.

2. Due Diligence

The ESG Decision Tool and meetings with management or specialised consultants ensure an assessment of material ESG risk or opportunities that should be managed or that could drive value.

3. Investment Appraisal

A summary of ESG findings are included in Investment Committee papers. Appropriate plans will be included for any material ESG risks identified or to capitalise on ESG factors.

4. Holding period

We engage regularly with boards and management teams, focusing on strategic, financial and operational matters including ESG factors, to address long-term risks and opportunities.

We apply our voting rights for Public Equity investments.

Public Equity

Our Public Equity approach is led by our UK and Irish Public Equity teams.

Our UK team are active stock pickers and adopt a private equity approach to quoted equities by taking a long-term view on small and micro-cap companies. In Ireland, we are active, long-term investors driven by a fundamental understanding of the quality and valuation of a particular investment.

Our Public Equity teams integrate ESG factors in their investment processes in line with our Group commitments. This includes assessing material ESG risks and opportunities at the pre-investment stage and meeting with company representatives to enhance our understanding of ESG risks and opportunities and to drive positive change, where relevant. We apply our voting rights for all holdings.

Engagement

Our Public Equity investment philosophy encompasses active engagement with our portfolio companies on value creation and ESG topics, and a rigorous approach to pre-investment due diligence which leverages an extensive network of industry specialists.

We believe that engagement can enhance our understanding of the risks and opportunities facing each investment. Engagement also helps our teams develop relationships with investee businesses and creates a platform with which to identify value creation opportunities and drive change to enhance a company's resilience, strategy or approach.

	UK		Ireland	
Active ownership	2022	2023	2022	2023
% management met with	93%	100%	57%	45%
Votes for management	93%	89%	93%	91%
Votes against management	5%	5%	5%	9%

Case study: Evolving our engagement approach

In 2023, the UK Public Equity team reviewed and updated its approach to ESG engagement with portfolio companies.

Since the inception of our funds, the team has proactively engaged with management teams and boards on governance issues deemed material to investment outcomes. Examples include discussions around management and board composition, or consultations on long-term incentive plans designed to align key businesspeople with shareholder value creation. While engagement in such areas will continue to support investment performance, our review highlighted the need to broaden our ESG monitoring and engagement process to cover a wider variety of issues.

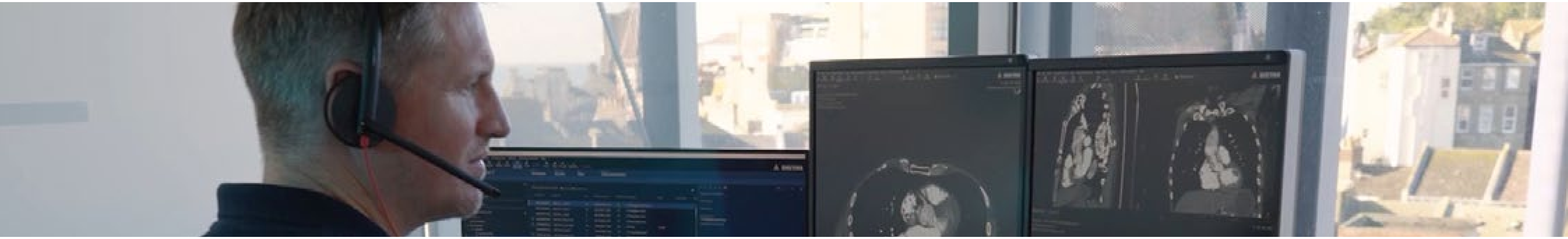
We sought to introduce an automated and repeatable process which would enable us to proactively monitor and engage with portfolio companies based on objective third-party data, spanning almost twenty ESG issues.

Each of these affect multiple stakeholders and are increasingly intertwined with financial outcomes. Newer focus areas for increased monitoring include: 'live' carbon reporting and intensity; progress on net-zero policy; various diversity and inclusion metrics; alignment of business practices with recommended UNGC or OECD principles; and threat to investment value posed by negative news flow.

We process new data on a monthly basis using a proprietary scoring model, ranking our portfolio companies on their aggregate ESG 'quality' and 'transparency'. We then generate red flags for certain companies and disaggregate drivers of 'lower quality' or 'lower transparency' to highlight possible areas of engagement.

In 2024, we are taking steps to further enhance the new monitoring and engagement process, introducing a wider variety of ESG metrics and sector benchmarking. We think these iterations will better contextualise the metric data on our portfolio companies and will broaden our comparative frame of reference to capture our entire investible universe.

Case study: engagement on strategy, incentives and value realisation at Medica



Our UK Public Equity team engaged with Medica Group, a global provider of teleradiology services, by holding direct meetings with the management team, in conjunction with input from our healthcare and M&A networks.

The aim of these engagements was to:

- Support the company's inorganic growth ambitions;
- Solidify its positioning on AI/ digital strategy; and
- Maximise alignment between management and shareholders and close the material valuation gap relative to comparable M&A transactions.

Additional actions

In March 2021, we provided c.£2mn of follow-on funding to support Medica's acquisition of RadMD, giving the company a foothold in the clinical trials market and further diversifying the company's geographic exposure.

Over the following two years we increased our shareholding from c.12% (at the time of the fundraise) to c.20%, becoming the company's largest shareholder, which allowed us to engage further on several initiatives.

With regards to its AI and digitalisation strategy we engaged with the company to gain comfort on potential disruption to traditional teleradiology solutions, using our healthcare network to support conviction that Medica was well positioned to benefit (not least through its partnership with Qure.AI).

We also engaged at length with the Chairs of both the Board and the Remuneration Committee to ensure that the management team were sufficiently incentivised to drive outperformance, whilst ensuring alignment with the shareholder base.

Finally, through our M&A network we were aware that the company traded at a substantial discount to the valuation multiples paid in recent, directly comparable transactions, and that there had been little evidence of this discount closing despite Medica's strong trading performance. We therefore encouraged the company to seek independent financial advice to challenge or corroborate this assertion, and to help form a view on the relative merits of remaining as an independent listed company rather than undergoing a recommended takeover.

Outcome

Following the above engagement, in July 2023 the company was acquired pursuant to a recommended cash offer by IK Partners, a European private equity firm, at a valuation multiple that we viewed as attractive relative to M&A transaction benchmarks and to Medica's independent prospects. To help de-risk the transaction we provided a soft irrevocable undertaking to vote for the offer, which could fall away if a competing offer were tabled. This provided us with an attractive all-cash realisation event for a significant holding in the trust.

Case study: decarbonising operations at C&C Group

Over the past three years our Irish Public Equity team has engaged with global brewer C&C Group on its decarbonisation and energy efficiency objectives.

The aim of these engagements has been to:

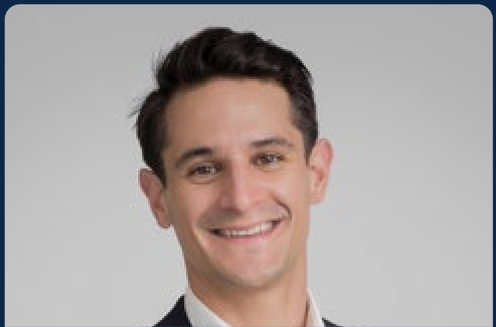
- Press C&C to scale up its emissions reductions targets and initiatives; and
- Improve its Scope 3 emissions disclosure

Engagement outcomes

- In April 2021, C&C reached its target of 100% electrification through renewable sources across its main sites in Ireland and the UK. This was achieved significantly ahead of time
- In 2023, its greenhouse gas reduction targets were formally validated by the Science Based Targets initiative (SBTi)
- It achieved its FY2023 target of reducing Scope 1 and 2 emissions by 6%, in line with its LTIP decarbonisation targets
- To address its Scope 3 emissions impact, C&C signed up to participate in the CDP Supply Chain Screening Programme. As part of this programme, the company agreed to work with over 130 of its suppliers and partners to request that they disclose climate and emissions related information to track progress of sustainability commitments. As part of their SBTi validation, the company has also committed to collaborating with suppliers and partners making up 67% of their Scope 3 emissions to have science-based targets in place by 2026. In 2023, CDP awarded C&C Group an A- rating for Supplier Engagement, acknowledging its performance on governance, targets, Scope 3 emissions, and value chain engagement in the CDP climate change questionnaire

A prime example of the type of project that C&C has undertaken in its commitment to sustainability is its Sustainability Project at its Clonmel, Co. Tipperary site. The project includes the installation of the largest rooftop solar panel farm in Ireland, which will reduce the Clonmel site's carbon emissions by 4%, saving c.290 tonnes of CO_2 per year and almost 10,000 tonnes over the next 20 years. The solar panels also provide up to 10% of the electricity used on the site.

Contacts



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