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Gresham House

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# Stewardship Code Report

For the year to 31 December 2022

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# Contents

## Disclaimer / Important Information

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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

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

This report focuses on the stewardship activities within our UK business, Gresham House Asset Management Limited (GHAM), and not those of Gresham House Asset Management Ireland Ltd, regulated by the Central Bank of Ireland.

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## Alignment of report with Stewardship Code principles

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# 1. Foreword

**Welcome to our 2022 Stewardship Code Report, which explains how we meet the twelve stewardship principles, sets out our 2022 achievements, our focus for 2023, and how we have continued to improve the integration of stewardship activities into our investment processes.**

Tony Dalwood
Chief Executive

Gresham House's purpose is to deliver effective and alternative investment solutions to help clients achieve their financial objectives while contributing towards the transition to a more sustainable economy.

Our purpose relies on and includes the application and management of stewardship activities such as environmental, social and governance (ESG) integration, engagement and voting. Being an active steward of our clients' assets is a key part of creating and protecting long term value across both financial and sustainability objectives.

**Developments in stewardship activities**

Despite a turbulent year for UK and global markets, we have continued to build on our strong sustainability credentials and advance our ambition to be a recognised leader in sustainable investment by 2025.

We recognise that the successful development of our business is contingent on how well we can continue to integrate sustainability into our business practices and investment strategies to the benefit of investors and the Company. Over the last 12 months we have made significant progress against our Corporate Sustainability Strategy, which guides our role as a *sustainable investor*, *business and employer* and *corporate citizen*. We:

- published our third Sustainable Investment Report, containing case studies, measurements of what we have achieved and key sustainable investment milestones.
- published our first standalone Task Force on Climate-Related Financial Disclosures (TCFD) Report, a year ahead of the mandatory deadline.
- enhanced the ways in which climate-related risks and opportunities are formally addressed in our governance and risk management processes.
- reported our operational and investment carbon footprint for the last three years.
- formalised and integrated division-specific ESG KPIs into our divisions' investment processes to improve decision making and enhance engagement planning and stakeholder reporting.
- integrated our newly-developed impact framework for our Sustainable Infrastructure funds to better monitor, manage and articulate the impact of our investments.
- met with the management teams of almost all our publicly-listed companies and 100% of our unquoted portfolio companies on ESG matters.
- contributed to boards as a member or observer on the majority of our private equity and sustainable infrastructure investments.
- received 4 or 5 stars, out of a maximum of 5 stars, for all modules relevant to Gresham House plc for our 2021 Principles for Responsible Investment (PRI) Report.

**Our commitment to our active ownership responsibilities**

As responsible stewards of our clients' assets, we are committed to active ownership. Within Strategic Equity, our teams are highly involved in steering the strategic direction of investee businesses, regularly meeting with management teams and, for our Private Equity investments, frequently taking a seat on company boards. In 2022, our UK Public Equity team met with 93% of investee companies, while our Private Equity division engaged with 100% of its unquoted portfolio companies.

Within our Real Assets division, we engage with key stakeholders such as operators, asset managers, suppliers or tenants of those assets to drive value for our clients and create positive change. For example, in 2022, our Forestry division's asset and woodland managers had over 140 interactions with local communities, reflecting our commitment to address the views, where appropriate and to the extent possible, of local communities in our forestry activities.

We also regularly participate in industry working groups or respond to government consultations to ensure our voice is heard and that we contribute to the development of sustainability-related regulation. In 2022 we provided feedback to seven regulatory consultations relating to sustainability-related matters.

**The importance of our people**

We recognise that it is the people in our business who are critical to its success. We aim to build a diverse and inclusive workplace to attract and retain individuals aligned to our business ambitions. We believe in placing sustainability at the heart of that culture and in 2022 we took further steps to continue building an environment in which everyone can thrive.

In 2022, we launched our staff wellbeing framework, based on findings from our 2021 employee engagement survey. This resulted in the implementation of a number of health and wellbeing initiatives including training on financial wellbeing, training additional mental health first aiders, providing regular Group-wide ESG training, and including sustainability as part of the new joiner induction process.

Additionally, our Diversity, Equity & Inclusion (DEI) Strategy was launched at the start of 2022 and throughout the year we have made significant progress towards achieving it.

**More to come**

Over the coming years we will remain relentlessly focussed on our core priorities and on strengthening the foundations of our long-term growth through the continued integration of sustainability across all our investment activities.

We remain committed to responsibly allocating and managing capital to deliver effective and alternative investment solutions that help clients achieve their financial objectives while contributing to the transition to a more sustainable economy, and the application of the Stewardship Code Principles.

Tony Dalwood
**Chief Executive**

# 2. Introduction to Gresham House

## 2.1 About us

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

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

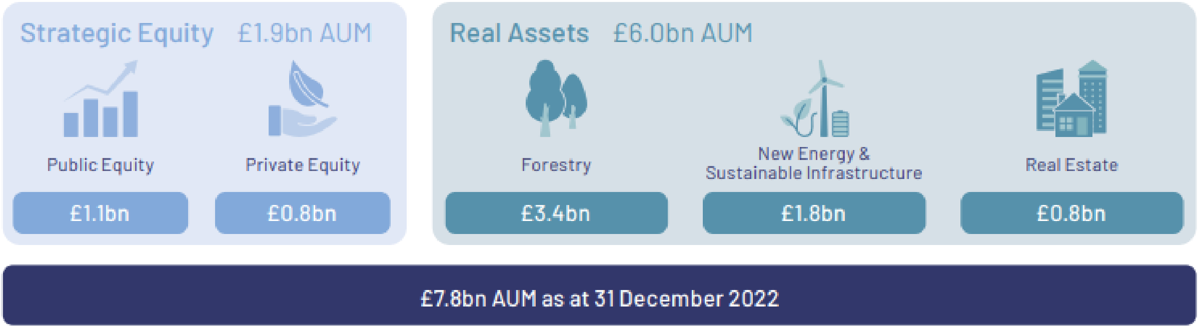
Since then, the firm has grown substantially through a combination of acquisitions and organic growth. Various acquisitions have been successfully integrated into the Gresham House Group as part of our strategic plan to diversify the business and broaden our asset-class capabilities in order to offer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

## 2.2 Our assets

We actively manage £7.8bn of assets (as at 31 Dec 2022) on behalf of institutions, family offices, charities and endowments, private individuals and their advisers.

### 2.2.1 Group divisional allocation

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




*As at 31 December 2022. These figures reflect include £570mn AUM from Gresham House Asset Management Ireland Limited (GHAM Ireland Ltd) which is not covered by this UK Stewardship Code Report. All following AUM figures, therefore, are calculated based on an AUM of £7.3bn.*

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

Our assets are predominantly in the UK but we have some forestry assets in Australia, New Zealand and Ireland:

**AUM by geography**[1]

| United Kingdom | Australia | New Zealand | Ireland |
|---|---|---|---|
| 92% | 6% | 1% | 1% |

*1. As at 31 December 2022. Percentages exclude all GHAM Ireland Ltd AUM.*

### 2.2.3 Identification of sustainable investment approach

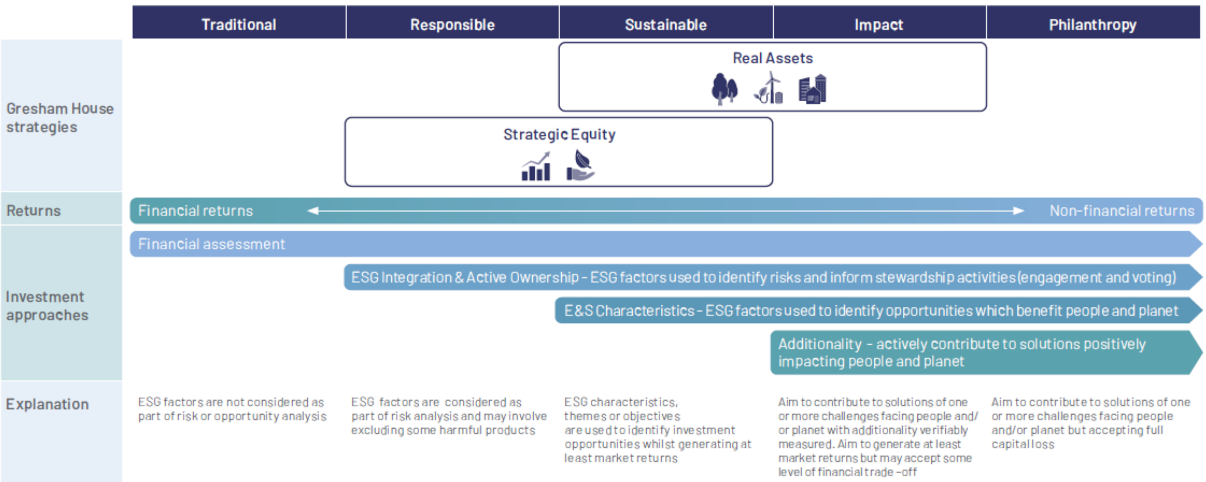
The Spectrum of Capital, as shown below, explains the difference between certain investment strategies and how ESG analysis and stewardship activities (engagement and voting) are used within the investment process.

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

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

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

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



#### Evolution of terminology

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

## 2.3 Our culture

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

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

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

### Our purpose

Deliver effective and alternative investment solutions to help clients achieve their financial objectives while contributing towards the transition to a more sustainable economy.

#### Sustainability beliefs

Our commitment to sustainability is based on a core set of beliefs that guides our strategic objectives, including our Corporate Sustainability Strategy, and investment approach. These are:

1. **Asset management has a critical role to play in the world's transition to a more sustainable economy**. We recognise our fiduciary duty to act with due care, skill and diligence, including encouraging high standards of ESG performance and supporting the stability and resilience of the financial system by allocating capital responsibly to help build a more sustainable economy.

2. **This creates compelling alternative investment opportunities**. Alternative assets that contribute to environmental or social objectives will drive future growth for our investors through the development of new markets and accessing innovative private market solutions.

3. **Incorporating sustainability factors into investment decision-making protects value and drives resilience for all stakeholders**. Robust ESG analysis is used to help screen out investments that are less aligned to the transition to a more sustainable future and may therefore face increased costs, regulatory headwinds, negative publicity or increased employee turnover.

4. **Investors increasingly seek opportunities with the potential for both financial and ESG returns**. Gresham House is committed to providing investment solutions to help clients achieve their financial objectives whilst making a meaningful contribution to the transition to a more sustainable economy.

These beliefs are complemented by our definitions of what sustainability means to us as an investor, as a business and employer, and as a corporate citizen.

**What sustainability means to Gresham House as:**

**An Investor**

Delivering value for investors by adopting a long-term approach that considers environmental, social and governance outcomes in our investment decision making and actions. We believe that sustainable investments drive returns because they are good for people and the planet.

**A Business & Employer**

Driving shareholder value by having a positive influence on the environment and societies our business and our people are a part of. We do this through prudent management of financial, social, and environmental risks and opportunities, while providing a supportive workplace, free from discrimination, where our employees can add value and develop personally and professionally.

**A Corporate Citizen**

Recognising and honouring our legal, moral, and economic responsibilities to the communities in which we operate. We aim to contribute positively to society by acting ethically, with integrity, giving back, and ensuring the long term social and environmental viability of our operations.

## 2.4 Our values

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

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

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

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

**Empowered**

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

**Collaborative**

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

**Authentic**

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

The culture, purpose, beliefs, and values set out above drive, our sustainable investment approach and our Corporate Sustainability Strategy (CSS).

We believe these elements enable effective stewardship, demonstrated in the following section (3.2. Achievements in 2022), whereby we highlight the progress we have made in 2022 against our CSS and the positive real-world outcomes associated with our investment activities.

We continue to consider the extent to which our sustainable investment approach meets the requirements of key stakeholders, shareholders and clients in particular, and maintain open dialogue with them to ensure our approach continues to support their interests and requirements.

# 3. Strategic direction in sustainability

## 3.1 Corporate Sustainability Strategy

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

The Corporate Sustainability Strategy was developed through an internal research, analysis and strategy process and aims to identify underlying objectives, as well as set out the actions we will take to meet our sustainability goals. It is aligned to our wider GH25 strategy, which means all objectives set are targeted to be achieved by 2025.

We see this as distant enough for us to set ambitious targets, but near-term enough that those targets are on the horizon and can drive our motivation.

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

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

**Drivers of the Corporate Sustainability Strategy**

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

**Three core pillars**

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

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

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

**Gresham House as a sustainable investor**

Operational

- Commitment to sustainability
- Risk and compliance
- Marketplace responsibility
- Governance and ethics

Thematic

- Climate change and pollution
- Natural capital
- Supply chain management
- Employment, health, safety and wellbeing

**Gresham House as a sustainable employer and business**

- Climate change and pollution
- Natural capital
- Employment, health, safety and wellbeing

**Gresham House as a sustainable corporate citizen**

- Diversity, equity and inclusion (DEI)
- Commitment to sustainability
- Community care and engagement

## 3.2 Achievements in 2022

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

We are proud of the progress made in 2022, but the work does not stop here. We will continue to deliver on our Corporate Sustainability Strategy and ambition to be at the forefront of the sustainable investment industry.

The roadmap on the next page shows the considerable progress we've made in the past few years and what to expect in 2023.

We believe that our investment and stewardship activities have made real world environmental and social impact that meets our clients' investment needs, examples of which are also highlighted below.

We will continue to invest in and develop new solutions that have positive real-world outcomes.

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| FY20 and prior | FY2021 | FY2022 | FY2023 |
|---|---|---|---|
| Published first Sustainable Investment Report | Published second Sustainable Investment Report | Published first standalone TCFD report | Continue to enhance sustainability-related reporting |
| Sustainable Investing policies established | First Corporate Sustainability Strategy published | Climate risks integrated into Board processes | Implement our Corporate Sustainability Strategy |
| Sustainable Investing Committee (SIC) established | Board Sustainability Committee established | Enhanced ESG data using surveys, data platforms and specialist consultants | Develop innovative investment solutions to meet client sustainability objectives |
| ESG Decision Tools developed and integrated into investment processes | SIC evolution to the Sustainability Executive Committee | First reporting of investment carbon emissions | Develop innovative investment solutions to meet client sustainability objectives |
| PRI reporting commenced with A and A+ scores across all entries | ESG KPI banks developed | 2021 PRI Report received 4 or 5 stars for all modules | Develop innovative investment solutions to meet client sustainability objectives |
| Awarded Green Economy Mark from the London Stock Exchange | Signatories to the 2020 Stewardship Code | FRC approved 2021 UK Stewardship Code Report | Contribute to the development of the UK Sustainable Finance Disclosure publication and apply requirements |

## Making a real world impact

| The challenge | Our investment solution | Real world impact in 2022 |
|---|---|---|
| Reducing atmospheric carbon emissions to combat climate change | Our Forestry divisions manages sustainable forestry and plants new trees contributing to the biogenic removal of carbon dioxide from the atmosphere. | ▪ **2.4mn** new trees planted<br>▪ **175k** hectares of forest were managed sustainably<br>▪ **1.9mn $tCO_2$** sequestered by our forests |
| Decarbonising energy systems to combat climate change | Our New Energy team invests in and develops new battery energy storage systems (BESS) enabling an increase in renewable energy generation assets on the grid. | ▪ **125MW** of new BESS developed<br>▪ **510,291 $tCO_2$** avoided by the team's full portfolio of BESS assets of 550 MW |
| Reversing nature loss | Our Sustainable Infrastructure team invests in Environment Bank, supporting the creation of a new market for biodiversity creation in the UK. | ▪ Work began on **13 land banks**, equating to **330 hectares** of biodiverse land |
| Funding new homes to improve the UK's Housing supply | Our UK Housing team plays an important part in increasing the supply of affordable homes in the UK. | ▪ Completed **253** new homes in 2022 and committed to funding a further **634**<br>▪ **407** new homes completed in the last two years |

### 3.2.2 Public Equity

**Achievements in 2022:**

- Engagement approach updated to more clearly define "engagement", to support a focus on progress against engagement objectives, and enable enhanced stakeholder reporting.
- Development of an ESG platform in collaboration with an external provider to deliver company and fund-level ESG data.
- Process launched to identify priority engagements on environmental and social topics in addition to governance and strategic topics, whereby the latter two topics have historically been the core focus of the UK Public Equity team investment approach.

**Actions for 2023:**

- Fully integrate new ESG data platform into investment processes.
- Update Engagement & Voting Policy to reflect Group sustainability objectives and ambitions.

### 3.2.3 Private Equity

**Achievements in 2022:**

- Undertook our second annual ESG survey to understand how the unquoted investments held within our VCT portfolios are responding to relevant ESG risks and opportunities and how these are considered as part of their operations.
- Began an ESG webinar series for the Chairs, CEOs and executives of unquoted and quoted investee businesses to enhance their knowledge of material ESG issues.
- Began to develop an engagement process that is aligned with existing engagement tools, such as the ESG survey and webinar series.
- Integrated the collection and monitoring of ESG KPIs into investment decision making.

**Actions for 2023:**

- Introduce initiatives to improve female-founder and diverse-founder deal flow, including through dedicated events.
- Assist investment directors with meaningful engagements with investee businesses on ESG, with measurable results, demonstrating progress through 2023 ESG survey results.

### 3.2.4 Forestry

**Achievements in 2022:**

- Implementation of second Woodland Manager Questionnaire to improve sustainability-related data.
- First eDNA measurement carried out to better understand the diversity of vertebrate and invertebrate species present at a forestry site.
- First reporting against ESG metrics identified in our Forest Charter for discretionary funds.
- Response to industry and government consultations on voluntary carbon market principles with the aim of ensuring a consistent global approach and fair, robust methodologies.

**Actions for 2023:**

- Progress biodiversity strategy including approaches to measure and set baselines for the biodiversity of forestry assets and meet Forestry Charter commitments.
- Enhance operational carbon emissions data.
- Develop more specific and focused Natural Capital investment solutions.

### 3.2.5 New Energy

**Achievements in 2022:**

- Completed an audit for a primary battery supplier through engagement of an external global responsible sourcing provider.
- Updated and shared a second iteration of our Modern Slavery Questionnaire with all New Energy suppliers contracted for construction activities and operations & maintenance services.
- Finalised ESG KPIs to be collected, measured, monitored and reported against for all New Energy assets.

**Actions for 2023:**

- Collate ESG metrics for assets to enhance operational decision making.
- Improve integration of the ESG Decision Tool into the construction and operational phase of asset management.
- Develop an approach to apply Biodiversity Net Gain requirements for all new investments.

### 3.2.6 Sustainable Infrastructure

**Achievements in 2022:**

- Developed an impact framework and applied it to all transactions undertaken in 2022. The framework is now integrated into the investment process to better understand, monitor and articulate the impact of the division's investments.
- Incorporated Sustainability and Diversity & Inclusion policies within each investee company's articles of association and actively monitored KPIs.
- Achieved five stars in UN PRI infrastructure module.
- Finalised list of ESG KPIs to be collected, measured and monitored for all sustainable infrastructure investments.
- Joined as founding members of the Just Transition Finance Challenge – formed in July 2022 by the Impact Investing Institute – which aims to mobilise public and private capital into investments that support a Just Transition to Net Zero in the UK and other markets.

**Actions for 2023:**

- Advance progress on delivering a just transition through our investments, including through additional enhanced community engagement.
- Benchmark carbon footprint for each Sustainable Infrastructure asset and engage with businesses to set net zero strategies.
- Develop additional Natural Capital investment solutions.

### 3.2.7 Real Estate

**Achievements in 2022:**

- Contributed to workshops with The Good Economy and Big Society Capital to contribute towards the development of the Equity Impact Project (EIP), a set of globally aligned standards for equity investments in social and affordable housing. ReSI plc was one of the first funds to report against the standard as part of its annual report for the year-ending September 2022.
- Embedded the newly developed ESG Decision Tool into investment processes to uncover material ESG risks that need to be mitigated and monitored, as well as to identify ESG opportunities that have the potential to drive value.
- Finalised list of ESG KPIs to be collected, measured and monitored for all Real Estate investments.
- Introduced new ESG Housing Wheel to identify where we believe we should be directing our focus to achieve more sustainable outcomes for prospective investments.

**Actions for 2023:**

- Work towards GRESB sustainability accreditation for specific UK Housing funds.
- Develop and apply an impact framework for specific impact-focused UK Housing funds.
- Broaden our environmental and social impact focus to include other areas such as natural capital.

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# 4. Our clients

At Gresham House, we strongly believe in prioritising the interests of our clients in all our processes. We partner with our clients to ensure that our current and future investment solutions meet their financial and sustainability requirements, often tailoring bespoke solutions to meet their needs.

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**[1] – which includes wholesale clients intermediated via discretionary wealth managers and Independent Financial Advisers (IFAs), and retail clients investing directly.
2. **Institutional** - including Pension Funds, Family Offices, Charities and Insurance Companies.

The tables below show how our clients invest across our asset divisions and where our clients are based across the World. All data and percentages exclude GHAM Ireland Ltd AUM[2].

| | | |
|---|---|---|
| Investor type by AUM | Retail | 45% |
| | Institutional | 55% |
| | | |
| Retail AUM by division | Public Equity | 24% |
| | Private Equity | 24% |
| | Forestry | 43% |
| | Housing | 2% |
| | New Energy and Sustainable Infrastructure | 6% |
| | | |
| Institutional AUM by division | Public Equity | 0% |
| | Private Equity | 0% |
| | Forestry | 50% |
| | Housing | 10% |
| | New Energy and Sustainable Infrastructure | 40% |
| | | |
| Geographical split of clients | UK | 83% |
| | EU | 2% |
| | Other Europe / Middle East (inc. Israel and UAE) | 8% |
| | Other | 0% |
| | Philippines / HK / Malaysia / Singapore / Australia | 7% |

[1] At Gresham House, outside of the Stewardship Code Report which specifically refers to client categories of retail and institutional, we refer to our client base through two core categories: Wholesale and Institutional. Whilst Gresham House investment products are invested in by retail clients, who invest directly, the majority of Gresham House retail clients are accessed via wholesale channels, most commonly intermediated via wealth managers or financial advisors.
[2] See 2.2.1 above. All data as at 31st December 2022

## 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.

**Retail**

We manage c.£3.3bn (31 Dec 2022, excluding GHAM Ireland Ltd) for wholesale and retail clients across our five divisions. These include discretionary, 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 discretionary and advisory wealth managers to discuss the strategies and to 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 wealth managers want to understand more about our sustainable investment approach and credentials. Across all our strategies, we generally share specific and relevant insights with our investors via commentary, as part of the funds' monthly factsheets, as well as via presentations.

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

### Case study: prospective client engagement on ESG

We continue to engage with potential clients regarding our sustainable investment approach, policies and commitments. This includes the completion of ESG due diligence questionnaires and one-to-one meetings with prospective and existing clients.

In 2022, we had three meetings with retail clients specifically on ESG topics and responded to six ESG questionnaires in the year. We use these meetings and questionnaires as an opportunity to explain our approach and ensure transparency with clients on sustainability topics. We also use such activities to learn from the questions being posed which contributes to future activities and evolution of our sustainable investment policies, processes and reporting.

### Case study: existing client engagement on sustainability requirements

In 2022, we sent an ESG Questionnaire to the top 15 investors in Gresham House Energy Storage Fund plc. The purpose of the questionnaire was to determine if the investor base had specific sustainability-related reasons for investing in the fund and what, if any, requirements they had at that time or in the future regarding sustainability-related reporting and ESG metrics. The responses to the questionnaire varied significantly regarding the sustainability-related requirements and drivers for investment.

The feedback contributed to the selection of ESG KPIs and the sustainability reporting framework adopted by the fund, in addition to other factors that contributed to the selection such as Gresham House's corporate commitments and regulatory developments.

**Institutional**

We manage c. £4.0bn (31 Dec 2022, excluding GHAM Ireland Ltd) of assets for institutional clients. 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. To support seamless and engaged reporting to our investors, Gresham House has invested in a proprietary online client portal designed to provide a high-quality reporting and information service to clients. Investors are therefore able to promptly see fund manager reports, raise any queries and have a central repository for all reporting.

We host webinars, available on demand on our website to all clients, to answer questions that stakeholders may have on the markets and our investing approach. For example, in February 2022, we hosted a forestry webinar during which Olly Hughes, Managing Director of Forestry, presented our Forestry Charter which sets out our commitments regarding sustainable forest management.

An important aspect of our relationships with current and prospective clients is the provision of education around our investment solutions and site visits to bring the investments to life. We carry out site visits to provide our clients with access to and education on the assets in which they are invested. In 2022, we carried out eight site visits held at Housing, Forestry and Sustainable Infrastructure assets.

Finally, we collaborate directly with institutional investors to develop investment solutions that support their sustainability objectives.

During 2022, Gresham House assisted several institutional investors including the following two examples:

**Case study: client forestry site visit, September 2022**

Our Forestry team welcomed twelve delegates including current clients, prospective investors, and consultants to a forest site visit in Dumfries & Galloway. The visit included an educational dinner with presentations on carbon, natural capital and sustainable investment, visits to two different forestry asset sites - one at planting stage and one at harvesting stage - and a tour of the forests' principal sawmill.

**National Trust** – *"Our site visit to Gresham House's planting and harvesting operations, and our discussions with the Gresham House sustainability team, enabled us to understand their approach and appreciate how the Gresham House investment could effectively align with our stringent investment and climate targets."*

**Worcestershire County Council - Sherief Loutfy, Finance Planning Manager** – *"The visit gave me an opportunity to learn about how the ecological aspects [of forestry] interact with the financial investment considerations. Every member of the team was incredibly knowledgeable and happy to explain forestry complexities to investors. I was very impressed with the knowledge and conviction of the site-based teams. I was also surprised by the level of automation involved at the sawmill."*

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**Case study: providing an investment solution for the Greater Manchester Pension Fund**

The Greater Manchester Pension Fund (GMPF) had an ambition to accelerate deployment into profitable, new solutions that address key environmental and societal challenges in the North West, supporting levelling up in the UK.

We worked with GMPF to develop a new investment solution that will support them in gaining exposure to innovative solutions and technologies including vertical farming, biodiversity net gain (BNG) credits, and low-carbon biofuel production in the North West and beyond. Directing investments towards these areas has the potential to deliver robust returns while accelerating the UK Government's levelling up agenda to empower regional communities.

This new solution's follows successful co-investment between Gresham House and GMPF in the North West since 2019.

## 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; and
- 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;
- 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.

**Case study: managing a potential conflict of interest between a private client and a discretionary fund**

In 2022, a private client, on behalf of whom we managed a forestry site, indicated their desire to sell the asset. At the same time, a discretionary fund, managed on behalf of multiple clients, indicated interest in the potential acquisition of the same asset. Our Forestry team identified that there was a potential conflict of interest, with the seller looking for the best sale price, whilst our fund needed to ensure any asset acquired was bought at fair value for its investors. Further, the private client was to use some of the proceeds of the sale to invest into the fund purchasing his property.

The Forestry team flagged this potential conflict to our Compliance Team in line with our Conflicts of Interest policy. The Compliance Team took time to understand the situation before mandating several actions to manage the conflict:

- Two teams be set up, one to advise the client and one for the fund.
- An information wall be erected, preventing the sharing of any information between either side.

- An independent valuation was commissioned to determine a fair value independent of internal bias. The valuer was selected by the private client.
- It was made clear that there was no requirement for the private client to sell the asset to the discretionary fund, and that the private client was able at any point to sell the asset on the open market.

Following these steps, a "fair" price for the asset was determined that the fund would offer, and the private client was happy to sell the asset at that price to the fund.

## 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 | 15+ years |
| New Energy | 25+ years |
| Real Estate | 10-30+ years |

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

# 5. Our people

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

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

Gresham House has a dedicated three-person Sustainable Investment Team. The team was set up in 2020 through the hire of our Sustainable Investment Director and it was expanded to three people in 2021. The team is responsible for the continued development and integration of our existing sustainable investment policies and practices across both the Real Assets and Strategic Equity divisions.

The Sustainable Investment Director has direct access to the very highest levels of Gresham House and reports directly into a member of the Group Management Committee. The Sustainable Investment Director chairs the Sustainability Executive Committee and reports to the Board Sustainability committee on a six-monthly basis.

The Sustainable Investment Director has over 11 years' experience within the sustainable investment industry; the two Associate Directors of Sustainable Investment each have over seven years' experience and are Chartered Financial Analyst (CFA®) charter holders.

## 5.1 Performance management

To lead a workforce committed and incentivised to support Gresham House's Sustainable Investment strategy, all employees, including our Group Management Committee, have non-financial targets relating to environmental, social and governance factors as part of their performance objectives. All employees will be assessed on these objectives as part of their end of year review and pay and bonuses will reflect if individuals have met the expected outcomes.

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

The Remuneration Committee is responsible for determining how sustainability objectives and commitments, as well as other business objectives and targets, are integrated into the remuneration of the Group Management Committee.

20% of Group Management Committee members' annual variable compensation is linked to non-financial objectives and the achievement of our GH25 strategy, including "becoming a leader in ESG and Sustainable Investing". Examples of key performance indicators used to assess the achievement of this objective include:

- Sustainability agenda recognition.
- Consultant recognition.
- Industry/peer group awards.
- Execution on the Corporate Sustainability Strategy.

We believe these remuneration structures support the incentivisation of implementation against our sustainability commitments, policies, and objectives.

## 5.2 Training and development

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

Significant time has been dedicated to furthering sustainable investment awareness and knowledge of our staff throughout 2022, particularly for new joiners or teams acquired into the business. Training sessions throughout the year have included:

- Three "ESG Lunch & Learn" sessions covering ESG vs. sustainability, sustainable investing trends, and the future of food.
- Continued carbon footprint training for the whole business.
- Training sessions on the Taskforce on Climate-Related Financial Disclosures (TCFD) for the Board, divisional heads and Group Management Committee (GMC).
- Sustainable investment as part of the new joiner induction process.
- A range of additional, division-specific, training such as ESG best practice training for our Strategic Equity division, ESG training for our distribution teams, training on impact investing with our Sustainable Infrastructure team and Net Zero/Science Based Targets training with GMC.

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

## 5.3 Diversity, Equity and inclusion (DEI)

At Gresham House, we believe that diverse and inclusive teams support better investment decisions and investment performance. Gresham House has a Diversity, Equity & Inclusion policy which formalises this philosophy and details our DEI focus, definitions, responsibilities and commitments:

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

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

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

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

**Developments of our DEI initiatives**

Our Group-wide objective is to build a diverse and inclusive workplace to attract and retain individuals aligned to our business ambitions. Our Diversity, Equity & Inclusion (DEI) Strategy was launched at the start of 2022 and throughout the year we have made significant progress towards achieving it.

Key initiatives we worked on during 2022 included:

- All employees attended unconscious bias training with an external partner 'Blueprint for All'. This involved education around how to recognise and interrupt unconscious bias to improve our overall decision-making as a team. Feedback from the training sessions will be fed into prioritising 2023 actions.
- Creating guidelines to ensure DEI is incorporated into future acquisitions and guidelines for our recruiters around our DEI expectations.
- Whilst not yet required under regulation, we also internally measured our gender pay gap and our DEI committee will continue to focus on enhancing our DEI disclosure into 2023.
- Looking forward, we have identified potential barriers to entry in our industry and how we may seek to address them which we will be working on throughout 2022 and beyond.
- Finally, we are working to identify an external DEI partner with expertise to help us steer our DEI Committee and to implement our DEI Strategy.

**2022 summary and progress**

- Women made up 39% of employees, an increase from 26% in 2017 (2021: 38%).
- 33% of senior management roles held by women (2021: 32%).
- 29% of Board positions held by women (2021: 25%).
- 81% employees feel that their immediate manager demonstrates a commitment to inclusion and diversity.

## 5.4 Employee engagement

In 2022, we conducted our third employee engagement survey. The purpose of the survey was to give our people the chance to provide feedback on their experience working at Gresham House.

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

**Highlights**

- 82% of employees understand how their job contributes to the success of Gresham House (compared to 80% in 2021).[3]
- 82% of employees feel trusted to take personal responsibility for their work, whether working in the office or remotely.
- 76% advocacy score – over three-quarters of employees agreed or strongly agreed that they would recommend Gresham House as a good place to work.[4]

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 2023 and as we target meeting our objectives for GH25.

[3] Results from the Gresham House 2022 Employee Engagement survey based on 90% completion rate.
[4] In previous years this question was asked as a Yes/No question. In 2022, we used a 5-point scale from strongly disagree to strongly agree, following consultant guidance, to better understand what drives Advocacy. 33% strongly agreed that they would recommend Gresham House as a good place to work to their network and friends, and 47% agreed. Only 4% disagreed and 2% strongly disagreed.

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# 6. Delivery of our sustainable investment approach

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

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

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

**01** Sustainability governance structure

**02** Sustainable investment commitments

**03** Sustainable investment policies

**04** Sustainable Investment Framework (SIF)

**05** Asset class specific ESG Decision Tools

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

Further detail on our approach to sustainable investment, including stewardship, is available in our Annual Report and Financial Statements, which can be found here, and our Sustainable Investment Report, which can be found here. Our Annual Report and Financial Statements are independently audited by BDO LLP, while our Sustainable Investment Report and associated data and metrics is subject to internal assurance by our finance team.

## 6.1 Sustainability governance structure

To ensure high-quality governance of our sustainability strategy, we have developed a network of sustainability-related committees, which oversee our work. The evolution of our sustainability governance structure has contributed to a strong level of leadership from our executive team with regards to sustainability objectives, with the Sustainability Executive Committee (Sustainability ExCo) providing a constructive forum for oversight and input from the Group Management Committee. Culturally, the extensive training and internal communications on sustainability, and the introduction of the Sustainability ExCo, have elevated the importance of sustainability across the business.

**Sustainability Committee**

The Board-level Sustainability Committee provides oversight and accountability for our approach to sustainability across our operations and investment practices.

Its principal duties include the requirement to understand ESG risks and opportunities within the overall context of materiality to the Group and its clients, to oversee the Group's progress against our Corporate Sustainability Strategy (CSS), and to agree and monitor progress against targets with the Board on ESG outputs. It met twice in 2022; items discussed included:

- Progress made by the Group against its Corporate Sustainability Strategy.

- Sustainability-related risks and developments, including those related to regulation.
- Training on the Taskforce for Climate-related Financial Disclosure (TCFD) in preparation for the publication of Gresham House's first standalone TCFD report.
- Discussion of updates to climate governance and risk management structures.
- ESG risk processes evolution.

**Sustainability Executive Committee**

The Sustainability Executive Committee was formed in 2021 to elevate responsibility for sustainability to executive level, reflecting the importance and materiality of sustainability to the business. It met eight times in 2022 and drove a number of sustainability-related priorities, including:

- Completion of the carbon footprint results for our financed emissions.
- Agreement of next steps relating to Net Zero ambitions and the setting of science-based targets.
- Identification of next steps following findings from an internal ESG Audit.
- Creation of a Sustainability Messaging document to ensure consistent messaging to our stakeholders.

**Remuneration Committee**

The Remuneration Committee is responsible for determining how sustainability objectives and commitments, as well as other business objectives and targets, are integrated into the remuneration of the Group Management Committee.

20% of Group Management Committee members' annual variable compensation is linked to non-financial objectives and the achievement of our GH25 strategy, including "becoming a leader in ESG and Sustainable Investing". Examples of key performance indicators used to assess the achievement of this objective can be found in section 5.1.

At a broader workforce level, sustainability objectives contribute to the performance review for all employees as reflected in the remuneration policies established by our Human Resources team, as discussed in section 5.1.

**Sustainability governance structure**

## 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's overarching Sustainable Investing Policy (link) describes our approach to sustainable investment and our commitments to investing sustainably while meeting our overall business objectives. Beneath this policy, we have asset-specific Sustainable Investment Policies that describe approaches relevant to each asset class.[5]

We also have an Engagement & Voting Policy which sets out our approach to engagement and voting to be followed by Gresham House both in relation to its balance sheet investments and on behalf of its clients.

**Policy structure**

| Group Sustainable Investment Policy | | |
|---|---|---|
| Engagement & Voting | Forestry | New Energy |
| Real Estate – UK Housing | Private Equity | Public Equity |
| Sustainable Infrastructure | Commercial Real Estate - Ireland | Public Equity – Ireland |

[5] All asset class policies can be found at the bottom of our Sustainable Investing webpage: https://greshamhouse.com/sustainable-investing/

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

| Policy | Content |
|---|---|
| Gresham House Sustainable Investment Policy | ▪ Our sustainable investment commitments (see previous page).<br>▪ How our business mission is linked to a commitment to sustainable investment.<br>▪ The process followed to deliver our approach to sustainable investment including our commitments to operating as a sustainable business.<br>▪ An introduction to our Sustainable Investment Framework (see next page).<br>▪ The Sustainable Investment Team will assess adherence to the commitments set out in our Sustainable Investing Policy on an annual basis and report progress to the Sustainability Executive Committee and Board. |
| Asset class sustainable investment policies | ▪ Details how the specific asset division's investment strategy meets our Group-wide sustainable investment commitments.<br>▪ Potential contributions of the investment strategy to the UN Sustainable Development Goals.<br>▪ Application of each theme our Sustainable Investment Framework to the investment strategy.<br>▪ Each asset division head reports to the Group Management Committee on how they are meeting the statements set out in their specific sustainable investment policy. |
| Engagement & Voting Policy | ▪ Roles and responsibilities in our engagement and voting processes.<br>▪ The purpose of engagement activities and how it fits into the investment process.<br>▪ How proxy services are used to deliver votes and how voting decisions are reached.<br>▪ Details how conflicts of interest are managed and how we will provide transparency and disclosure. |

Gresham House's policies are regularly reviewed to ensure they continue to enable effective stewardship. In the event of an acquisition by Gresham House, acquired businesses are integrated into our existing ways of working, and investments are managed in line with the commitments set out in Gresham House policies. Where an acquisition leads to a new asset class, a new sustainable policy is developed.

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**Policy updates in 2022**

In 2022, we published Sustainable Investing Policies for both the Commercial Real Estate (link) and Public Equity (link) divisions in Ireland following the acquisition and integration of these businesses. Their publication reflects the commitments that these teams now apply in their investment activities.

## 6.4 Sustainable Investment Framework

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

The framework is used to structure analysis, monitoring and reporting of ESG issues and opportunities within the lifecycle of our investments as an aid to more consistent integration.

The themes are used by the investment teams to identify a broad range of ESG risks which may materially impact proposed transactions, as well as directing our focus towards more sustainable outcomes.


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

## 6.5 ESG Decision Tools

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

The Tools were extended to newly acquired Gresham House Ireland (formerly Appian Asset Management) and our Mobeus VCT investments during 2021 and were fully embedded into the majority of funds' investment processes in 2022. Please note that the Tool is still in development for our Irish Commercial Property Fund following its acquisition in 2022.

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

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

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

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

We are committed to ensuring that 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.

PRI | Principles for Responsible Investment

**Principles for Responsible Investment (PRI)**

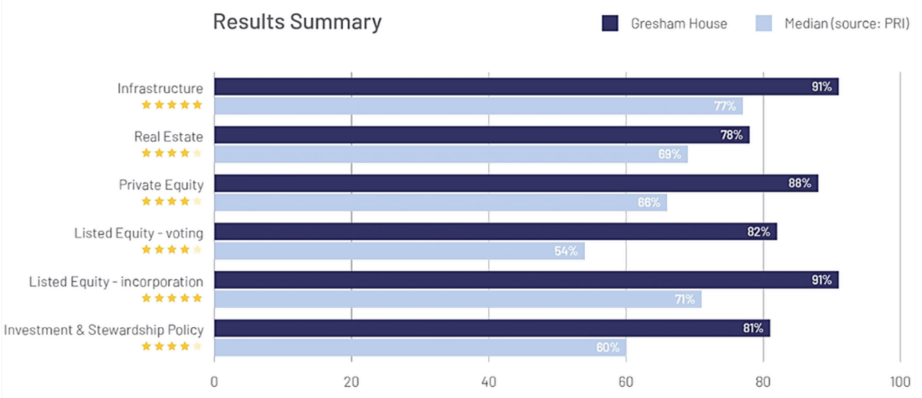
We became signatories to the PRI in 2018 and have aligned our sustainable investment commitments with these principles. The PRI believes that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment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

In 2020, we received our first results from the UN-supported Principles for Responsible Investment, achieving an A+ rating for Strategy & Governance, the highest possible score. For our investment strategies, we scored an A+ for Infrastructure, and A for Public Equity and Private Equity.

For our 2021 PRI Report, the results of which were published in 2022, we were awarded 4 and 5 stars, out of a maximum of 5 stars, for all modules relevant to Gresham House plc. In line with the PRI publication guidance, the following links provide access to our **Assessment Report**, our **Transparency Report**, and **Assessment Methodology**.




*Source: Gresham House (collated from PRI report), September 2022*

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

We are a member of UKSIF, which works 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 wants to see laws, regulation and guidance that promote long-term, sustainable wealth creation. It therefore works 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 collaborates on industry initiatives such as public statements, share industry best practice and report on industry progress.

On public matters, UKSIF helps 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. Our participation in 2022 included:

- Taking part in several roundtable discussions on the formation of the UK's Sustainability Disclosure Requirements (SDR) and IFRS International Sustainability Standards Board's (ISSB) global baseline of sustainability-related disclosure standards.
- Continuing as members of the Green Taxonomy Working Group, helping to advise UKSIF's policy positions at meetings of the Green Technical Advisory Group (GTAG).
- Contributing to UKSIF's Net Zero Inquiry, which sought views on policy recommendations that the government and regulators should adopt to move the financial sector towards net zero at the scale and pace required.

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**London Stock Exchange (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 2022, our Managing Director of Sustainable Infrastructure ran an educational session on how private capital can be mobilised to build back nature and our environment. The event was attended by pension fund trustees and their advisors and highlighted how pension funds can invest in biodiversity while also achieving required returns.

**The Good Economy Equity Impact Project**

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

In 2022, Representatives from our Housing strategy participated in workshops with The Good Economy and Big Society Capital to contribute towards the development of the Equity Impact Project (EIP).

The EIP has developed a set of globally aligned standards for equity investments in social and affordable housing. Residential Secure Income plc (LSE:RESI) was one of the first funds to report against the standard as part of its 2022 year-end report.

**Just Transition Finance Challenge**

Formed in July 2022 by the Impact Investing Institute, the Just Transition Finance Challenge aims to mobilise more public and private capital into investments that support a Just Transition to Net Zero in the UK and other markets.

In 2022, representatives of Gresham House's Sustainable Investment and Sustainable Infrastructure teams contributed to the formation of the draft criteria, ahead of its public consultation in 2023.

**Wider industry contributions in 2022**

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

12 contributions to sustainability focused educational events as panel experts or event speakers.

54 sustainability focused articles or comments from Gresham House experts in the press.

7 responses to sustainability related government/regulator consultations.

## 6.7 Engaging service providers

Gresham House works with specialist service providers to support and enhance our work in sustainable investment and stewardship activities. For example, during 2022, we worked with the following service providers:

1. Two carbon data providers to measure the carbon footprint of Gresham House plc's operations and investments. This data contributes to our carbon footprint reporting and monitoring, as well as plans to set climate targets and investment decision making.
2. Additional carbon data providers to outline the specific retrofitting measures that could be taken by our UK Housing funds to improve the energy efficiency of our properties.
3. A well-known firm to execute voting for the UK Public Equity Team and an ESG data solutions company to develop a bespoke ESG data platform for this team.

We apply a thorough selection processes for engaging service providers and provide examples of this in last year's report. In this report, we provide examples of how we monitor current service providers.

**Case study: engaging with consultants to improve processes to calculate our carbon footprint**

In last year's Stewardship Code Report, we detailed the provider selection process undertaken to select consultants to support us with the carbon footprinting of our investments and our operations. Following our first year of interaction with selected carbon consultants, we initiated a review of the service they provided and commenced plans for our second year of carbon footprinting. As part of the review, we considered aspects that had could be improved from the previous year.

We were comfortable with the quality of output provided by both providers but noted a few aspects for improvement in relation to the carbon footprinting of our investments. When finalising the contract and project plan for a second year of interaction with the carbon consultant, we ensured that challenges encountered during the first year were addressed and processes were updated to make the data gathering process and carbon footprint calculations more efficient. This included requesting more detailed checks of the final models and a more streamlined process for updates to data.

We will continue to monitor alternative providers of carbon footprinting to ensure we are engaging the most appropriate, efficient, and cost-effective approach on behalf of our shareholders and our clients.

**Case study: engaging with an ESG data provider to develop an effective platform**

Following the Public Equity ESG data provider selection process presented in last year's Stewardship Code Report, we selected the most appropriate ESG data provider for the UK Public Equity team in early 2022. A key nuance of the selection process was that no provider offered an off-the-shelf product because of our UK team's small company investment focus. The provider finally selected was able to develop a bespoke solution for us.

In 2022, we worked closely with the provider to develop the bespoke solution. This included identifying the parameters of the ESG data to be provided and how the data should be presented. We met with the data provider on a regular basis to provide feedback on the dashboard they were developing ahead of launch. Since the platform was integrated into the investment process, we continue to maintain open dialogue with the provider to ensure it is as effective and relevant to investment processes as possible.

## 6.8 Monitoring and assurance

Gresham House is committed to continuous improvement in the execution of its sustainable investing approach.

Since 2021 we have applied a three-tier approach to ensure our investment teams, on a consistent basis, comply with our Sustainable Investment Framework (SIF) and implement the ESG Decision Tools in their approach effectively. This approach continues to be integrated and evolved as our internal processes and teams develop. The three stages are as follows:

**01 Investment level**

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

### 02 Risk Committee

This Committee reviews the risk to each fund in line with the requirements of the Alternative Investment Fund Managers Regulations, provide regular updates to the senior management outlining the current level of risk incurred by each managed AIF and provide regular updates to the Boards of the Group's regulated AIFM and Gresham House plc Audit committee on the adequacy and effectiveness of the risk management processes. Risk papers shared with the Risk Committee will include a new section covering the key ESG risks that have been identified over the last quarter. Any explanation of how these risks will be managed or mitigated will also be included.

### 03 Asset division consistency

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

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

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

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

To ensure our stewardship reporting is fair, balanced and understandable, we provide information for all asset classes equally and aim to demonstrate progress as well as successes. The Sustainable Investment Team is responsible for ensuring all asset classes are fairly represented in reporting. In addition, as a regulatory document, the report is reviewed by our Compliance team, as well as the Group Management Committee and Board, who also consider the accurate and fair representation of information in reporting.

*Please note that the risk governance processes detailed in this report are currently being revised to optimize the effectiveness of the risk oversight function and may be subject to updates in the near future.*

Gresham House
Specialist asset management

# 7. ESG risk management

## 7.1 Governance framework: our enterprise risk management framework

Effective risk management is key to our success and forms part of our key strategic drivers and culture. Our enterprise risk management ("ERM") framework sets out our risk governance structure, risk appetite and risk assessment processes, policies and procedures, periodical risk reporting and assurance arrangements.

The identification of risks is linked to the strategic objectives of the Group as a whole and supports business processes. Our risk identification process delivers a defined risk taxonomy which is used to establish the impact and likelihood of a risk materialising and of the exposures the Group faces. Examples of risks within the ERM framework include:

- Strategic risk – examples include going concern, fundraising and fund performance.
- Market risk – examples include pricing and volatility.
- Financial and liquidity risk – examples include cash balance, liquidity and leverage.
- ESG and climate risk – examples include physical climate risk and greenwashing risk.

Our risk prioritisation reflects the efficient application of resources within the Group.

Our sustainability risk management model has been 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. Our Board level Sustainability Committee oversees our Corporate Sustainability Strategy and ESG risks specifically. New risks are identified based on industry or market wide developments, or specific developments identified within Gresham House.

Climate change and its adverse impact on our operations is a risk that is explicitly identified under our ERM framework. In 2022, this continued to be a focus for the Group, and we published our first standalone TCFD report alongside our 2022 Annual Report. One of the four thematic areas of the TCFD report concerns risk management.

Gresham House maintains a risk register which records all the key risks which are relevant to the Group. In 2023, the risk register was updated to give greater prominence to physical and transition climate risks in the risk identification and management process. Risk owners are supported in the identification of division-specific climate risks by the Group's Sustainable Investment Team, which regularly reviews and provides guidance on the sustainability and climate-related risks facing each division.

Additional risks facing the Group are outlined below. These risks and our approach to managing them are described in more detail in the effective risk management section of our 2022 Annual Report.

Please note that the risk governance processes detailed in this report are currently being revised to optimize the effectiveness of the risk oversight function and may be subject to updates in the near future.

## 7.2 Climate change

Globally, the cost of continued inaction on climate change will see more variable and extreme weather, leading to destructive consequences. Climate change is arguably the biggest risk to the proper functioning of financial markets across the globe. At Gresham House, we recognise that the changing climate will present risks to our strategy.

We also see climate change as an opportunity. Supporting the transition to a sustainable, low-carbon economy requires substantial capital to achieve green and broader sustainability objectives. At Gresham House, we are committed to leverage the opportunities climate change presents and invest in ways that have a positive impact on the environment.

In Q1 2023, we published our first standalone report in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), a framework that helps public companies more effectively disclose their climate-related risks and opportunities.

This report aims to provide our clients, shareholders and other key stakeholders with a better understanding of our exposure to climate-related risks and the climate-related opportunities that we are pursuing.

**Climate-related risks for our investments**

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

- **Physical risks** - risks resulting from climatic events, and can be **acute** (i.e., event-driven) or as a result of **long-term** shifts in climate patterns.
- **Transition risks** - business risks associated with the transition to a low-carbon economy. These include changes to the policy and legal backdrop, the shift to lower emissions technologies, changes in the market and reputational risks.

The identification and assessment of climate-related risk takes place using our Enterprise Risk Management (ERM) Framework. This framework assesses and manages Group-wide risks based on the likelihood of the risk materialising and the business exposures faced if it does.

We maintain a risk register which records all the key risks which are relevant to the Group. In 2023, the risk register was updated to give greater prominence to physical and transition climate risks in the risk identification and management process.

At a divisional level, the responsibility for climate-related risk management has been embedded into the activities of each business unit throughout the lifecycle of an investment. We require climate-related risks to be assessed as part of the investment process for all investments. This is done through the implementation of asset-specific ESG Decision Tools which require investment teams to identify how material particular environmental risks, including climate change, are to the investment. The ESG Decision Tools ask about various environmental risks including, but not limited to, physical climate risks, policy risks, such as changing consumer behaviour, and regulatory risks.

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

Risk owners are supported in the identification of division-specific climate risks by the Group's dedicated sustainable investment team, which regularly reviews and provides guidance on the sustainability and climate-related risks facing each division.

**Climate-related opportunities for our investments**

Gresham House is well positioned to take advantage of the increasing investor focus on the transition to a low-carbon economy. We provide our clients with the opportunity to invest in a range of asset classes that have long-term investment horizons and returns that are tied to climate-related opportunities. These include:

- Renewable energy generation and battery storage solutions within **New Energy**.
- Sustainable building materials and carbon sequestration within the **Forestry** division.
- Innovative agricultural practices, biodiversity net gain, and waste-to-energy solutions within **Sustainable Infrastructure**.
- Low-carbon and operationally net zero homes within **Housing.**

As the business continues to expand, we are committed to providing investment solutions for our clients that contribute to the global transition to a low-carbon economy.

**Climate change strategy for our investments**

We consider our main exposures to climate change risks and opportunities to sit within our Real Assets divisions, which account for £6.0bn (76%) of AUM as at 31 December 2022.

It is primarily through these investment divisions that we offer our clients exposure to climate change solutions, and it is the opportunities that these multi-decade investment solutions provide that drive the development of new products.

For existing funds, sustainable investment considerations are applied across the investment process for all assets and involve the integration of ESG factors, including climate change, as well as the application of active stewardship responsibilities.

Climate risks unique to each division are considered prior to and throughout the life of a transaction. To assist in the identification of climate risks at the pre-investment stage, we have developed asset class specific, proprietary, ESG Decision Tools. These Tools support the investment teams in identifying potential, material ESG risks, including climate change risks that need to be managed and mitigated, to help shape the due diligence process for individual companies prior to investment.

In conjunction with our Sustainable Investment Team, each investment division has drawn up a list of ESG KPIs that it will track for each of its investments. These KPI banks have been created with reference to a number of well-known sustainability reporting frameworks and reflect the unique nature of our asset classes and the ESG and climate-related risks and opportunities that they face.

These KPIs help investment teams track the progress a particular asset is making towards its ESG and climate-related ambitions, and to what extent ESG and climate-related risks are being managed effectively.

Gresham House has developed and published an overarching Sustainable Investing Policy (link) along with asset specific sustainable investment policies.[6] These policies describe our approach to sustainable investment, including climate change, and highlight our commitments to investing sustainably while meeting our overall business objectives

The following pages set out the relevant climate risks and opportunities and their potential financial impacts that Gresham House and its associated strategies face over the short-, medium- and long-term.

**Actions in 2022**

- Integrated climate risks into Board process, such as making a discussion of climate-related risk and opportunities a standing item in committee meetings.
- Published our first standalone TCFD report, outlining how we consider climate-related risks and opportunities within our operations and our investments, and how these are aligned with the four thematic TCFD areas of Governance, Strategy, Risk Management and Metrics & Targets.
- Undertook a comprehensive carbon footprinting exercise for the second year covering both our operations and our investments in line with the Partnership for Carbon Accounting Financials (PCAF).
- Undertook our second annual ESG survey of our Private Equity investee businesses, which includes a number of questions on climate-related matters.
- Within Forestry, we surveyed our woodland managers, sawmill and main nursery supplier to improve the quality and quantity of carbon-related data that they disclose.

**Next steps**

We are committed to continuing to improve both the quality and granularity of our climate-related disclosures over time. In order to meet this ambition, we must make sure that we continue to evolve and advance our Corporate Sustainability Strategy in the coming years. Climate Change and Pollution has been identified as a priority topic covering our role both as an investor and business and employer. The following outlines some of our core Climate Change and Pollution actions that we will take between now and 2025 to support our climate ambitions.

- Engage with investments across all divisions to support the improved measurement of their carbon footprint and establishment of climate change strategies.
- Expand the climate data that is reported for all funds, including through climate accounting and scenario analysis.
- Continue to assess the key climate-related risks across our investments and develop a process to reduce exposure or mitigate these risks.
- Continue to assess key climate-related opportunities across our investments and develop processes that allow Gresham House to allocate to these opportunities where possible.
- Set science-based Net-Zero targets covering our operations and investments and regularly monitor progress against these targets.
- Continue to identify, participate in and/or lead industry climate-related initiatives.

[6] All asset class policies can be found at the bottom of our Sustainable Investing webpage: greshamhouse.com/sustainable-investing

## 7.3 Biodiversity loss

Biodiversity loss refers to the decline in the variety and abundance of living organisms, both plant and animal species, in a given habitat or ecosystem. This loss of biodiversity is caused by human activities such as deforestation, pollution, and climate change, and it poses a significant risk to the stability and functioning of ecosystems, as well as to the human population. For Gresham House, the risk of biodiversity loss is material to all our investments given this dependence of society and economies on natural ecosystems. Biodiversity loss also presents financial and regulatory opportunities and risks for certain investments as regulation aims to address biodiversity loss by mandating biodiversity net gain for certain activities. These factors are particularly material to our Housing, Forestry and Sustainable Infrastructure assets.

As public awareness of the importance of biodiversity grows, governments and regulators are increasingly implementing policies and regulations aimed at protecting the environment and biodiversity. Over time, those companies that do not adapt to and comply with these regulations may face fines and reputational damage, which can negatively affect their financial performance and long-term value.

**Mitigation controls**

As part of our Corporate Sustainability Strategy, we have a 2025 strategic objective to assess the natural capital impact and dependencies across our assets; and develop market leading reporting and solutions to meet clients' requirements.

In 2022, we started work with our New Energy and Real Estate divisions to understand the implications of the biodiversity regulation expected in the autumn of 2023 and are working to prepare for compliance ahead of the final publication. As part of this we contributed feedback to the UK Government Biodiversity Regulation Consultation in April 2022. Our Sustainable Infrastructure division continued to drive forward the innovative market for biodiversity credits in the UK by supporting its investment in Environment Bank Ltd, a pioneer in the creation of biodiversity units. The team's investment aims to support the creation of over 4,000 hectares of biodiverse land throughout the life of the investment. In 2022, work began on 13 land banks equating to 330 hectares.

Our Forestry business conducted its second biodiversity survey of managed forests in the UK. The division also undertook environmental DNA (eDNA) testing of sample forestry sites to better understand the biodiversity of species present on productive forestry sites. The eDNA results complemented survey results, indicating a presence of biodiversity of species across our forests sites. The team continues to work with consultants and ecological experts to develop a comprehensive and science-based approach to measuring the baseline of specific site biodiversity and then managing and enhancing that biodiversity over time.

**Next steps**

To continue to identify, manage and align our investments with risks associated to biodiversity loss, we will:

- Continue to monitor updates to the Biodiversity Regulation in the UK to support compliance with the regulation once published.
- Monitor the evolution of the Taskforce on Nature-related Financial Disclosures and consider the extent to which we might integrate nature-related risk and opportunities into the investment processes for our holdings going forward.

- Develop natural capital-related investment products for clients seeking to address nature and biodiversity-loss and restore nature.

## 7.4 Cyber risk

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

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

We manage cyber risk as part of the operational resilience of our overall security plans. In 2022, cyber risk was mitigated through the application of appropriate systems and controls and employee training.

**Mitigation controls**

- From a top-down basis, the Operations Committee address operational efficiencies with regular reporting to the board.
- The Group engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties.
- Annual IT audits are conducted by independent third-party IT security providers, including phishing and penetration testing and ongoing cyber security monitoring with monthly reports. Restricted access to systems is in place.
- Refresher training on data protection and cyber security, including cyber fraud prevention.
- Annual business continuity plan maintenance and testing to ensure resilience of the Group's and critical third-party systems.
- Maintenance of ISO 9001 certification ensuring documentation and consistent application of processes across the Group.
- We have outsourced services for IT and Cyber. The company that provides this has ISO 27001 certification. The Cyber team runs a 24/7 security operation centre (SOC).

**Effectiveness of our cyber risk mitigation strategy**

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

- **8.5mn** screened events, such as individual log ins;
- **6.1mn** screened events relating to security;
- **14,807** potentially malicious events with the potential to cause harm;
- **5** serious cyber security incidents/threats; and
- **0** data breaches.

Our New Energy team has identified cyber risk as a material to their assets, given the critical role these assets play in national energy security. The below case study demonstrates action they take to manage cyber-related risk.

### Case study: managing cyber risk

A safe and secure energy infrastructure is essential to the stability of modern-day society. Whilst often overlooked in the context of sustainability, the instability of national power systems arising during the energy crisis has reinforced the societal need and benefits of having a reliable national grid.

Battery energy storage systems (BESS) are a fundamental and critical component to the transition to a net zero electricity system. Ensuring that our sites are available to the electricity network when needed and are not at increased risk from cyber or physical attack is vitally important.

**Mitigation controls**

Every major player connected to the nation's grid has an incredibly important role to play in guaranteeing the security of that network from hostile intruders.

The New Energy investment team takes the security of its investments seriously and so appointed an expert cyber security company in the year to test the security of its assets through three different tests:

- Penetration test: to simulate a cyber-attack on the BESS assets.
- Network security: if gained access how vulnerable different parts of the site equipment would be to hacker influence.
- Physical security: simulating a break-in of sites.

The penetration test was concluded in December 2022 with strong results with few issues detected. The Network and Physical security tests are ongoing, with some initial feedback already implemented across the portfolio, prior to tests being concluded.

The team awaits the final results of the tests and will implement any further recommendations to ensure our sites remain as secure as they need to be.

## 7.5 Supply chain risk

Gresham House is exposed to a range of supply chain risks in almost all of our investment divisions that can disrupt operations, damage our reputation, and impact upon financial performance.

These risks are particularly acute in our New Energy division. Whilst our New Energy technologies are central to the clean energy transition, these technologies can face significant sustainability challenges in their supply chains. For example, a key risk in the solar supply chain is the risk of exposure to forced labour in the Xinjiang region in China in the manufacturing of polysilicon, a key raw material used in solar panels. China dominates the global production of polysilicon, with 70% of the global market, more than half of which is produced in the Xinjiang region.[7]

[7] Anesco, 2021, Solar Supply Chain Practices – Investor Briefing Note

In the battery supply chain, the reliance on and increased demand for transition minerals (e.g. lithium, nickel, graphite, manganese) poses serious human rights and environmental risks. For example, in Chile, lithium mining operations have affected the rights and livelihoods of indigenous communities with violations to self-determination, land and water rights. The high intensity of water use has also affected the water basins and the availability of the resource for human consumption.[8]

**Mitigation controls**

We have a 2025 strategic objective within our Corporate Sustainability Strategy to understand material ESG risks across the supply chain of our investments and establish policies and processes to manage and mitigate these where possible.

Our focus for this topic remained on the New Energy division in 2022. We sent a second iteration of our Modern Slavery Questionnaire to all New Energy suppliers, expanding the scope from solar suppliers to the suppliers of all main New Energy components and operations and maintenance services. The questionnaire was also integrated into new supplier selection processes. The results were being collated at the time of writing, but we intend to engage with any suppliers that flag against specific criteria following a review of responses.

A battery supply chain audit was completed by a third-party supply chain auditor, RCS. The audit report included a summary of relevant potential risks associated with the division's primary battery chemistry. It summarised results from on-site audits for the primary battery supplier and a cathode supplier. No material risks were identified in the results, but the report acknowledged that risk management processes within the lithium iron phosphate (LFP) chemistry battery supply chains are relatively nascent.

Whilst the information did not impact on the team's construction or asset management decisions, useful feedback was obtained that will lead to an update of the Gresham House New Energy's Supply Chain Policy. Follow up actions include updating the Manager's Supply Chain Policy and assessing whether and how the Manager, as a key customer, can influence BESS suppliers' promotion of their policies further down the supply chain.

## 7.6 Regulatory and legal risk

Failure to comply with regulatory requirements and expectations may put Gresham House at risk of fines, lawsuits or reputational damage. Regulatory and Governance risk drivers include:

- The expansion of our investment businesses through acquisition and the launch of new investment products internationally;
- Regulatory change; and
- Ongoing compliance obligations under a wide range of laws and regulations.

Regulatory and compliance risk increased during 2022 due to further UK regulatory developments such as Consumer Duty, the FCA's Dear CEO letter and proposed new rules to establish a U.K. sustainability disclosure regime (SDR). The potential impact of regulatory and legal risk includes regulatory censure, fines, and reputational damage.

**Mitigation controls**

[8] The Centre for Research on Multinational Corporations, 2020, The Battery Paradox – How the electric vehicle boom is draining communities and the planet

The Group continuously monitors upstream regulatory developments to assess potential impacts. This allows the Group to amend working practices, where necessary, to meet the new requirements ahead of deadlines.

Gresham House supports regulatory initiatives that promote consumer protection and anti-greenwashing rules, which we believe will provide additional premia for genuinely sustainable investment products, cognisant however of the operational complexity and costs to demonstrate compliance in the manner prescribed under regulation.

The Group programme plan for Consumer Duty was approved by the Board on 31 October 2022, with regular progress reported directly to the Board. Independent Non-Executive Director Rachel Beagles is the appointed Consumer Champion.

The FCA regulated entities in the Group have a board made up of division leaders and the Group Management Committee. Quarterly board meetings are used to review breaches, updates in the compliance environment, capital adequacy, FCA reporting (RegDATA) and other regulatory matters. In addition, we conduct regular training and communications across the Group on applicable regulatory obligations. With the introduction of the Senior Managers and Certification Regime, this has been further embedded through specific conduct rules training. Furthermore, there is an independent compliance department to regularly monitor, identify and report any actual or potential breaches using our compliance monitoring programme. Robust whistleblowing arrangements are also in place.

# 8. Our approach to ESG integration

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

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

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

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

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

## 8.1 Differences across geographies

Most of our assets (92% AUM as at 31 December 2022[9]) are based in the UK, hence our reporting focuses on how ESG and stewardship activities are integrated across our UK assets. Our non-UK assets are Forestry assets in Ireland (1% AUM as at 31 December 2022), New Zealand (1% AUM) and Australia (6% AUM) and are broadly managed in line with our UK assets.

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

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

[9] The percentages refer to total Gresham House plc AUM excluding all GHAM Ireland Ltd AUM.

## 8.2 Strategic Equity

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

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

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

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

**01 Initial appraisal**

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

**02 Due diligence**

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

**03 Investment appraisal**

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

**04 Holding period**

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

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

### Sustainable Investment Framework Application

**Environmental**

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

**Social**

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

**Governance**

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

### Public Equity case study: active ownership at Argentex

Our UK Public Equity team invests in Argentex, a UK-based foreign exchange services company. At 31st December 2022, the team held a 10% share in the company worth £11.3mn.

The team engaged the company with the aim of enhancing the value of the investment by supporting the company in revising its overall strategy to drive revenue growth and improving employee retention. They held several meetings with the management team and the Chair of the remuneration committee.

To increase company performance and drive revenue growth, our UK Public Equity team engaged with Argentex aiming to improve their technology strategy, team structure and incentivisation mechanics.

**Using our network**

- Through connecting with individuals across our network who specialise in corporate currency services, our UK team were able to highlight value creation opportunities for Argentex.
- The team used insights from personnel across their network to identify any potential bottlenecks to the delivery of value creation opportunities.

**Employee structure and incentivisation**

- The team then engaged with the management team to address key elements to Argentex's strategy.

- This included recommendations for the evolution of Argentex's technology infrastructure, revision of the sales team structure, and the creation of a new long-term incentive plan in collaboration with the Chair of the remuneration committee.

Since its adoption, the technology strategy and roadmap have progressed materially with strong new leadership. Following our engagement activities, Argentex's implementation of a revised sales team commission structure and new incentive plan helped to drive growth and improve retention of key staff members. We believe that the company is better aligned from an operational scalability perspective to deliver revenue and earnings growth and thus create shareholder value.

## 8.3 Forestry

**Approach**

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

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

### 01 Sourcing

High-quality commercial forests across diversified age groups are sourced both on and off market. Various characteristics are assessed including geographical location, species mix, size, growth rates, local conservation, or species protection designations, and for new planting sites detailed surveys, including notably peat surveys, 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 productive forests across diversified age groups and geographies. Each forest is evaluated using the ESG Decision Tool to uncover material ESG risks and opportunities. This includes an assessment of whether a forest meets our internal sustainability commitments and can be certified to international and/or national certification standards.

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

### 03 Acquisition

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

### 04 Ongoing management

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

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

### Sustainable Investment Framework Application

**Environmental**

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

**Social**

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

**Governance**

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

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

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

- We conduct regular monitoring of ESG risks, opportunities and performance in our investments and over time will prepare ESG data, including the metrics we commit to in our Forest Charter, 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 2022 outcomes**

- 170,000 hectares of land under management
- 9.1 million trees planted, of which 2.4 million were newly planted trees and 6.7 million for restocking
- 1.9 million tonnes of carbon dioxide sequestered by total forests under management
- 88% of forests certified as a percentage of area
- 1.16 million tonnes of certified timber sold
- 13% of total land, by area, managed for biodiversity or conservation

The following case studies provide examples of how our sustainable investment processes, policies and commitments are applied in practice by our Forestry team.

### Forestry case study: ESG factors leading to the decision not to invest

As mentioned above, all potential new investments undergo ESG due diligence prior to investment. We provide examples below whereby our team rejected potential asset acquisition opportunities because ESG factors failed to meet our strict sustainable forest management standards and criteria, as set out in our Forest Charter.

**Example 1: Rejected for failure to comply with Environment (E)**
At Walkerburn, we chose not to purchase land for woodland creation as this would have involved planting land identified as key to golden eagles. Although golden eagles use forests, and indeed nest and hunt within our portfolio, they also need some open ground for thermal lift and this land was identified as being important for this. As a result, we deemed an acquisition of the site and the resulting planting of this important land to be in breach of our commitments to conserving priority species.

**Example 2: Rejected for failure to comply with Social (S)**
At Logan estate, we were offered large areas of LCA grade 3.1 land in Dumfries and Galloway.
The supply of this category of agricultural land is a limiting factor to agricultural production. Planting such land can have a disproportionate impact on agricultural production and employment. Our process identified that acquiring such a site would be in breach of our social commitments and regulatory restrictions regarding planting on arable land. As a result, we did not proceed with the investment.

**Example 3: Rejected for failure to comply with Carbon (C)**
At Greenfields extension, we identified that 75% of the land comprised deep peat or was important hydrologically in terms of bog formation. Planting the site would have a negative impact in terms of carbon, so we decided not to purchase the site for planting.

## Forestry case study: developing methods to better understand the biodiversity and ecology of our forestry assets

*The challenge*

Productive forests are often portrayed as "green deserts" or habitats supporting no biodiversity. Whilst we recognise that productive forests have different characteristics in terms of biodiversity to native woodlands, they are still habitats to many plant and animal species.

To date, there has been limited monitoring of biodiversity within commercial forestry assets by the industry and academia. In addition, data that is available has not been used consistently in forest development and asset management decisions.

*The solution*

In line with our Forest Charter and sustainable forest management commitments, we want to continue to enhance biodiversity for all the forestry assets we manage. Understanding the biodiversity within our forests will play a crucial role in deciding the composition and management approach adopted.

We are therefore trialling new technological options which make the measurement of biodiversity increasingly viable. In 2022, we applied environmental DNA (eDNA), a process whereby samples from water, soil or insects were analysed to identify DNA of species present.

We conducted an exercise in the early spring, using water samples which provide a snapshot of species which have recently been present. 49 species of birds, mammals and amphibians were identified, painting a picture of a variety of animals using the woodland. This complements the 44 species identified by woodland manager observations across all properties in 2022 by our Woodland Manager Questionnaire.

**eDNA testing results for productive forestry sites**

359 species, according to taxonomic class, were detected including:

- 310 invertebrates
- 22 birds
- 16 mammals

However, there are limitations to this measurement approach as species which avoid the water courses are unlikely to be detected. In 2022, our woodland managers reported that they had seen other species not accounted for in the eDNA testing results. Therefore, by combining eDNA testing with our Woodland Manager Questionnaire we are better able to capture a fuller picture of the biodiversity across our forestry sites. We expect to expand eDNA testing in 2023 to a broad spectrum of properties which we are able to access to better understand the comparable position of our forests' biodiversity.

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## 8.4 New Energy

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

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

### 01 Preliminary due diligence

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

### 02 Due diligence

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

### 03 Investment appraisal

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

### 04 Asset operation

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

### Sustainable Investment Framework application

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

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

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

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

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

**New Energy's 2022 outcomes**

- 487 GWh of renewable energy generated, equivalent to 138,700 homes powered and 210,300 tonnes of carbon dioxide equivalent avoided
- 550 MW of operational battery storage capacity, contributing to the avoidance of an estimated 510,290 tonnes of carbon dioxide equivalent avoided
- 125 MW of new operational battery storage capacity demonstrating additionality
- £483,000 contributed to Community Benefit Funds

The following case study provides an example of how our sustainable investment processes, policies and commitments are applied in practice by our New Energy team.

**New Energy case study: battery supply chain audit to assess supply chain risks**

In 2022, the New Energy team engaged RCS Global Group (RCS), a global responsible sourcing assurance and advisory business, to conduct an audit of CATL, the team's primary supplier of batteries. The purpose of the audit was two-fold:

- to better understand CATL's approach towards and policies for managing its supply chain, particularly in the key risk areas of labour and the environment.
- to receive feedback from RCS on the team's supply chain policy.

A key component (cathode) supplier was also audited to determine RCS's capabilities and audit reach in this regard.

**Results**

CATL's policies were comprehensively reviewed by RCS with respect to key risks and found to be satisfactory. However, an audit of a key component supplier showed that CATL may be facing challenges in ensuring its supply chain policies are implemented by its supply chain. This would be further assessed in a potential second phase of the study.

The audit verified that CATL had a framework in place to manage ESG risks. This provided comfort to the GRID Board that its main supplier is committed to responsible business practices and has comprehensive policies in place. The audit highlighted however that more work is required by CATL to ensure companies further down the supply chain meet the same standards.

Whilst the information did not impact on the team's construction or asset management decisions, useful feedback was obtained that will lead to an update of the New Energy team's Supply Chain Policy. The study also provided a framework to carry out audits on future battery suppliers and the supply chain under CATL and other BESS suppliers.

**Next steps**

Next steps for the team include:

- Updating the New Energy team's Supply Chain Policy to reflect relevant standards for compliance.
- Assessing whether/how the team, as a key customer, can influence BESS suppliers' promotion of their policies further down the supply chain.

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## 8.5 Sustainable Infrastructure

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

The division invests across six thematic sub-sectors:

### Decarbonisation

Hydrogen and EV infrastructure, heat solutions, energy transition infrastructure

### Waste Solutions

'Closed-loop' and on-site waste processing solutions

### Resource Efficiency

Sustainable food infrastructure, hydroponic farming, alternative proteins

### Digital Inclusion

Fibre and gigabit networks, data centre infrastructure

### Health and Education

Dementia and specialised healthcare, SEN schools, nurseries, and vocational training

### Regeneration

Biodiversity net gain habitat banks, nature based solutions

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) and their underlying targets. If an investment does not provide appropriate sustainability outcomes or if certain risks are unlikely to be sufficiently managed or mitigated, then we may choose not to proceed at this stage.

### 02 Initial assessment

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

### 03 Due diligence

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

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## 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. Proprietary impact framework, closely tied to the principles of the Impact Frontiers, is applied to investment.

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

## 05 Holding period

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

### Sustainable Investment Framework Application

**Environmental**

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

**Social**

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

**Governance**

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

### Sustainable Infrastructure case study: application of our impact framework to N Family Club investment

**Investment date:** May 2022

**Investment amount:** £37.5mn

BSIF II invested into N Family Club (NFC), a high-growth, differentiated nursery business offering high-quality care and progressive education with a focus on environmental and social responsibility.

Our impact framework was used to structure and formalise our impact approach and to support target setting as part of our active ownership plan.

**Sustainability challenge being addressed:** In collaboration with our Sustainable Investment Team, three core impacts (both positive and negative) were identified:

1. **Accessibility**. By creating new childcare places, NFC contributes to solutions in an undersupplied early years education market that has seen a reduction in overall places over the last three years.
2. **Quality**. The company has a clearly-stated commitment to high standards of care, as a provider of education to children, as an employer, and through its support to local communities.
3. **Affordability**. NFC's offering is on the premium end of the market, targeting "mass-affluent" households. Given the target market of the proposition, its offering could exclude lower income households from accessing its services.

These impacts were discussed in internal "challenge sessions" containing the BSIF II Investment Committee, investment directors from across Gresham House, and the Sustainable Investment Team. Impacts were discussed further with NFC's management, and KPIs and targets were drawn up to track, manage and mitigate these impacts as part of our active ownership plan.

**Investment outcomes:** Investment conditions were agreed with NFC's management team, in particular in relation to improving the accessibility and affordability of its services. These include:

- NFC has committed to increase the proportion of revenue from children receiving government funding to 10% by 2025, up from the 4.6% at the time of investment. NFC has already increased this to 6.6% of total income as at the end of 2022.
- BSIF II will donate its annual monitoring fee to fund five new bursary places every year to families that would otherwise be unable to afford it. In 2023, NFC has allocated 7 fully-funded bursary places.
- Looking ahead, we will work closely with NFC to identify other corporate partners and donors to facilitate the expansion of the bursary scheme.

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## 8.6 Real Estate (UK Housing)

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

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

*In Ireland, we provide investments into commercial property – office, retail and industrial properties in the greater Dublin area and major regional urban centres. Please note that our investments made through Gresham House Asset Management Ireland Limited (GHAM Ireland Ltd) are not covered by this UK Stewardship Code Report.*

The UK Housing division invests across four core areas:

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

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

### 01 Sector analysis and strategy setting

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

### 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.

The ESG Decision Tool is used to identify 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.

### 03 Execution

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

### 04 Holding period

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

**Sustainable Investment Framework Application**

**Environmental**

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

**Social**

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

**Governance**

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

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

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

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### Real Estate case study: delivering "zero bills" homes at Stanford-le-Hope

As part of its Shared Ownership Environmental Charter, ReSI LP has outlined its commitment to the delivery of sustainability and carbon reduction targets, with a target of beginning to deliver operationally net zero carbon homes from 2023. The Charter states that the team will work with industry partners to achieve net zero carbon for all new homes by 2050.

In 2021, ReSI LP agreed to fund the construction of 153 new homes in Stanford-le-Hope and planned to use modern methods of construction to deliver two-thirds as operationally net zero carbon, with a select few guaranteed to have energy bills of zero.

In Q1 2023, ReSI LP began to deliver the first of these 153 new build shared ownership homes. This scheme uses rooftop solar panels and air source heat pumps to support the delivery of high-quality energy efficient homes. The site will deliver 101 homes that are EPC A and operationally net zero. Furthermore, 21 homes have guaranteed energy bills of zero; these homes are equipped with additional insulation, improved air tightness and battery energy storage and are guaranteed no energy bills through our partnership with Octopus Energy, saving owners up to £40,000 over 20 years.[10]

[10] 40,000 saving over 20 years per household assuming an average energy bill of £2,000 per annum

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# 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, active ownership approach to our investments to ensure the best result for both shareholders and clients.

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

## 9.1 Strategic Equity – UK Public Equity

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

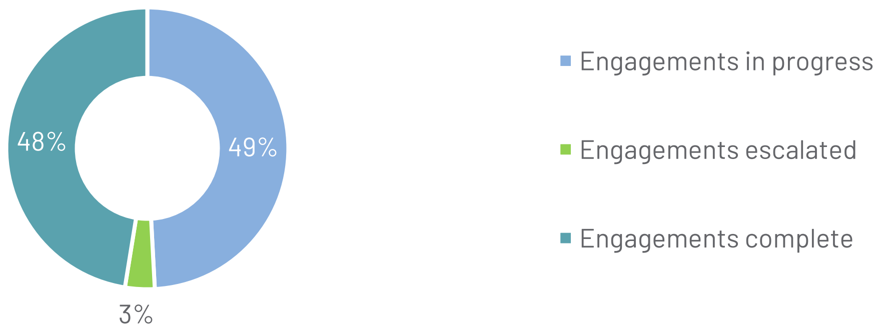
Our assessments of management, board and governance forms a critical part of the investment case, which necessitates that we work with companies on matters such as strategy, mergers and acquisitions and remuneration, both from the outset of the holding period and on an on-going basis.

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

**2022 UK Public Equity engagement activities**

- 93% of companies met by our team
- 59 engagements with investee companies on ESG matters

### Engagement progress in 2022




In 2022, we worked to enhance the engagement process for our Public Equity team. This included explicitly defining what an engagement is - in line with Stewardship Code and the Principles for Responsible Investment guidance - and developing a clearer process to enable better monitoring of progress against engagement objectives. We expect this to improve our stakeholder and regulatory reporting in line with expectations for more granular reporting on engagement activities.

We also expect this process to support an increased focus on engagements on material environmental and social topics, where historically our team's engagement focus has been on governance and strategy. Indeed, 100% of engagement activities reported on for 2022 related to governance or strategic topics for our UK Public Equity team. We have identified several engagements on environmental and social topics and expect to provide an update on these in our 2023 Stewardship Code Report.

**Definition**

We define an engagement as "an interaction with a clear objective - related to strategic, financial or ESG matters - to enhance or protect the value of our investment or lead to positive real world sustainability outcomes."

We use this definition to better guide our engagement activities and the intended outcome of our active ownership approach. We also clarify what is not considered an engagement, to avoid reporting on activities that do not meet industry definitions and expectations, such as regular company meetings for general updates on results.

**Process**

In 2022, we created a clear six-step engagement process for our Public Equity teams to support a more focused approach to the identification and prioritisation of engagement activities, and to better record, monitor and report on progress against engagement objectives set.

**Identify** potential engagement targets and specific topics for engagement

**Engage**: Engage with the company to drive change. Log the objective and timeline

**Prioritise**: Determine the most material engagement targets and create a list of priorities

**Monitor & respond:** Monitor progress of engagement activities. Amend investment position or escalate if required

**Plan:** Create an engagement plan

**Report:** Report progress of engagements and outcomes to stakeholders annually

More detail on how certain parts of this process are applied can be found in the sections to follow.

### 9.1.1 Identifying engagement objectives

For engagement activities to create value, they need to be bespoke and material to the organisation and important to the development of the business. Objectives may change over time depending on factors such as business priorities, market forces and stakeholder considerations.

Engagement should involve the setting of an objective that aims to protect or enhance the value of the investment. The identification of such engagement opportunities or requirements requires a consideration of what issues are most material to that investment.

It may be considered that the team's level of shareholding or influence is limited for certain investments and that engagement is unlikely to lead to positive outcomes. In such circumstances, the investment team will decide whether they are comfortable that expected financial returns reflect sustainability-risks. If not, the team may decide not to proceed with the investment or to sell the asset.

Our investment team uses several mechanisms which help them to identify key strategic topics that should create value over time.

At pre-investment, this includes:

- Meetings with company representatives, industry experts and the team's network, or brokers to better understand all aspects of the investment case and identify potential engagement actions.
- Completion of our proprietary ESG Decision Tool to support the identification of material environmental, social and governance risks and opportunities. The Tool prompts a consideration of relevant risks and, where possible, the identification of actions, or engagement objectives, to mitigate risks to be included in Investment Committee papers.
- Investment papers are completed for all potential investments prior to investment. These papers prompt a consideration of ESG factors, financials, strategy, management, and market position as part of the pre-investment assessment, and include an Action Plan section which may include engagement objectives.

Once invested, this includes:

- Regular meetings, at least once a year, with company representatives including the management team which may highlight new or changing strategic, financial or sustainability-related risks.
- Risk monitoring which includes a review of controversy information updated on a quarterly basis by the team's ESG data provider. The team also monitors news flow as relevant.
- Quarterly review of ESG KPIs for the team's holdings based on the team's ESG data platform. The team will focus on metrics with material changes, metrics that flag as outliers, or metrics that pose concern to identify potential engagement objectives.
- Conviction scores are maintained for the majority of our investments, which incorporate a quantitative and qualitative analysis of various business parameters, including relevant ESG factors and reflect the team's level of confidence in the investment case. Conviction scores contribute to investment decisions and changes in portfolio positions through ongoing stock review. Change in conviction score may also correspond to the setting of relevant engagement objectives.

### 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. Our UK Public Equity team invests in over 100 companies across their portfolios. Prioritisation of engagement activities is therefore important to manage team resources effectively.

The level of engagement is calibrated based on our assessment of each company, the risks, opportunities, the probability of achieving change and the potential value at-risk or value enhancement from the engagement. We aim to focus engagements where we believe we can drive the most material change or where the engagement activity is most likely to impact on shareholder value.

Key elements our team considers to prioritise engagement activities include:

- Shareholding - 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. Therefore, we consider our shareholding as part of the prioritisation stage with a particular focus on companies where we have the largest shareholding.
- Net asset value – we consider the position of a company within our funds and may prioritise holdings that most meaningfully impact total fund net asset value.
- Materiality of engagement topic – while harder to define, we will prioritise engagement activities that we believe are most material to the investment's future value, either by protecting downside risk or enhancing value. This may relate to reputational risk or opportunity, business strategy, or financials.
- Our Corporate Sustainability Strategy – as a business, we have identified priority topics within our Corporate Sustainability Strategy. Priority topics, particularly across thematic areas such as supply chain management and climate change, may also contribute to the prioritisation of engagement activities.

### 9.1.4 Escalation

A key part of our engagement process is to monitor progress against the engagement objectives set and to respond to company activity, or inactivity, against the stated objective where appropriate.

When engaging with companies, we aim to clearly state what we would encourage the company to do, why we think this will add value for the company, and by when. If a company does not respond to or implement the stated objective, we may respond.

**Response options**

Responses will vary based on the specific circumstances of the engagement and the relevant materiality. Response options include:

- Change in investment position (increase or decrease investment in the company).
- Exit from the investment position (sale of holding in the company).
- Escalation.
- No change.

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.

**Escalation approaches**

Typically, escalation is considered where we oppose proposed changes that could be detrimental to shareholder value or where management teams or the board fails to respond meaningfully to our engagement objectives to create positive change. Specific situations across our investee companies can differ significantly so we do not apply a one size-fits all approach. Instead, we apply a principles-based approach when it comes to escalation factors and will discuss within the investment team the best course of action which may involve:

- Further engagement with the company, including with Non-Executive Directors which may include formal letters or communications.

- Use of voting rights, including the filing of resolutions.
- Discussions with other shareholders.
- Annual General Meeting (AGM) or media statements.
- Exiting the investment.

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.

**Escalation drivers**

Historically, there have been 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 is not restricted to these issues however and we will consider escalation as deemed appropriate.

Escalation via formal shareholder letters or other public avenues is typically a last resort.

### Escalation case study: writing a letter to the Board to improve governance and strategy

**Engagement focus:** Chairperson replacement

**How we engaged:** numerous meetings with Non-Executive Directors and the Nomination Committee

**How we escalated:** writing a letter to the Board

We had some concerns regarding a consultancy services company in which we invested, relating to its strategic clarity, its communication with the market, and the ability of the then Chairperson to drive the business forward. We believed these concerns had contributed to the company trading at a discount to value.

A Chairperson recruitment process was started by the company's Board as part of regular term completion and the Board started its search for a replacement. We met with Non-Executive Directors and the Nominations Committee on numerous occasions to propose candidates that we felt had the relevant skillset and experience to address our concerns with the company. The Board ultimately decided to elect an internal candidate, which we did not support.

To reflect our concerns, we wrote a letter to the Board expressing our opposition to the appointment.

**Outcome**: the case remains outstanding however we continue to monitor the situation and consider how it impacts the investment case for the company. We reserve our right to vote against the reappointment of the Chairperson at the next Annual General Meeting if there is no change made beforehand.

### 9.1.5 Collaboration

Across our public equity activities, our primary means of engagement is directly with portfolio companies due to our active management approach. There may be reason however to collaborate with other shareholders (or stakeholders) to drive improvements in shareholder value.

We would consider collaborating on matters of governance as we believe strongly that this is one of the most important drivers of investment performance. We will explore collaboration with other shareholders in instances where we find this to offer the best route to effecting necessary change.

**Collaboration case study: engaging with industry bodies with the potential to evolve new collaborative engagement initiatives**

In last year's report we provided information on a meeting with a representative from UKSIF (UK Sustainable Investment and Finance Association) to discuss the potential for launching a collaborative engagement initiative for investors in smaller companies that would support a gap in the market, given current collaborative engagement initiatives primarily focus on companies with large market capitalisation.

Despite connecting UKSIF with a smaller companies industry representative, the initiative did not proceed any further last year. We have followed up with the industry body in 2023 to determine whether there are any updates regarding the proposed initiative and opportunity for our UK Public Equity team to be involved in the development of such an initiative.

**Collaboration case study: collaboration with other shareholders to drive change – progress in 2022**

**Engagement focus:** company underperformance

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

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

In last year's report, we provided a case study explaining how, due to the material underperformance of an investee business over the previous 1-2 years, we had put the investment under review and collaborated with another significant shareholder to engage with the board and executives to discuss the business and formulate recommendations for change.

Our recommendations had included the company changing its operational strategy including headcount, offices, PLC costs, overheads, revising its geographical focus and personnel changes to the board and executive teams.

In 2022, we continued to engage with the company.

**Outcome:** since collaborating with another material shareholder in 2021 and making recommendations to the company, we helped to facilitate the Chairperson's succession plan and were heavily involved in the recruitment of a new Chief Financial Officer. In addition, the company has made progress with rationalising its operational footprint in line with our recommendations.

## 9.2 Strategic Equity – Private Equity

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

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

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

**100%**

Engaged with all our active unquoted portfolio companies in 2022

**71%**

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 holding period (and up to a year post investment). This means focusing on near term changes which may be required for operating and reporting processes, such as board representation, governance policies and new hires, and strategically this could involve identifying key milestones which are important to the development of the business and driving long-term value. We have also developed a Best Practice Board Pack for early-stage software as a service (SaaS) businesses to help them scale their businesses, including information on good governance and best practice. This has evolved with the help of the Sustainable Investment Team to include information on ESG best practice and ESG risk management tools that can be used by businesses across various sectors. We also run quarterly educational ESG Webinars for portfolio companies. 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.

### Case study: Informing engagement objectives using our Private Equity ESG survey

In 2022 we undertook our second annual ESG survey to understand how the unquoted investments held within our VCT portfolios are responding to relevant ESG risks and opportunities and how these are considered as part of their operations.

The survey asked unquoted investee businesses a range of questions based on the ESG_VC framework across a range of material environmental, social and governance factors. It asked them to indicate the relevance of those material ESG factors to their business, as well as their ability to influence those factors.

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

We survey our investee businesses for the following reasons:

- It helps to develop an understanding of how portfolio companies think about ESG, and what ESG data is already being reported on and monitored. It also provides a simple way for us to communicate with companies as to how they compare against their peer group.
- Repeating the survey annually allows companies to demonstrate progression against material ESG issues and forms the basis of meaningful ESG engagements with our unquoted portfolio companies.
- It demonstrates our commitment to being responsible active owners and to use that position of ownership to influence the behaviour of investee companies for the better.

While the survey used a scoring system, a company's score does not pass judgment on the response. It is an indication of the proportion of suggested initiatives and policies that the business has adopted or is intending to adopt over the next 12 months.

Overall, companies have adopted 47% of the ESG initiatives and policies listed in the survey. This compares with 40% for 2021. On a like-for-like basis (i.e. comparing companies surveyed both years), the average score was 45%, an increase of 4%pts versus 2021, highlighting the work that investee businesses have done over the last 12 months to further integrate ESG considerations into their business models.

### Case study: engaging with portfolio companies through educational ESG webinars

Following last year's ESG survey, we committed to holding a series of educational webinars for the Chairs, CEOs and executives of unquoted and quoted investee businesses to enhance their knowledge of material ESG issues. The webinar series aims to provide a toolkit for investee businesses to better integrate ESG and sustainability into their businesses, and covers:

- Education and materiality - understanding ESG, its importance and how to identify material ESG issues.
- Governance - how to optimise governance structures to identify and manage ESG risks and opportunities.
- Strategy - how to set a sustainability strategy and develop an ESG policy.
- Risk management - how to incorporate ESG into risk management processes.
- Metrics and targets - how to set measurable ESG KPIs and targets.

We aim to continue the series on a quarterly basis moving through 2023 and beyond. The full series is available to view here: ESG webinar series - Gresham House Ventures

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**Case study: engaging to highlight the social impact of automation at Legatics**

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

**Engagement focus:** increased focus on social benefits of automation

**Issue to be addressed:** Legatics' legal transaction management platform software simplifies and automates complex legal processes. As part of board-level ESG reviews, Gresham House's investment director encouraged Legatics to consider the social impact of its software, notably through the automation of mundane but lengthy tasks.

**Outcome:** Management identified the mental health benefits their software provides for lawyers by improving efficiency and automating mundane tasks. Legatics turned this insight into a core aspect of the company's mission.

### 9.2.1 Prioritisation

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

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

We have prioritised our 2023 engagements based on the outcomes and analysis of our ESG Survey in two ways. Firstly, when completing the survey, investee businesses were able to signal whether they intended to undertake a particular initiative, such as undertaking a firmwide diversity and inclusion survey, over the following 12 months. In this instance we will engage to support businesses with their own sustainability ambitions. Secondly, our own analysis of each company's ESG survey identified sustainability areas that we feel companies should be improving on. Both items have been included into quarterly board packs to ensure that investment directors engage regularly on such issues.

Prioritisation may also be driven by thematic engagement targets to support our Corporate Sustainability Strategy.

## 9.3 Forestry

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

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

- Scottish Cabinet Secretary for Rural Economy and Tourism and Natural Resources Wales (NRW) to provide input to discussions around government policies on rural land use and woodland creation.

- Confor, the industry association for sustainable forestry in the UK. Our Managing Director, Forestry, Olly Hughes, sits on the Advisory Board to support the strategic direction of Confor's work programme and provide advice on arising matters.
- Woodland Carbon Code around the creation, eligibility criteria, registration and application of carbon credits for woodland creation in the UK.
- The Forest Industry Safety Accord (FISA), where we are on the landowners' representative board. The FISA set out industry commitments to raise the standard of health, safety, and welfare in forestry management. We participate actively in this organisation to influence and drive better work practices in the forest management sector.
- The UK Climate Change Committee (CCC), where a Forestry team member replied to a call for evidence on voluntary carbon offsetting. The evidence was used as input to the CCC's work relating to offsets and its 2022 report 'Voluntary Carbon Markets and Offsetting'.
- The Integrity Council for the Voluntary Carbon Market (ICVM), where we were a part of the Member Consultation Group and provided an open letter on forestry and Core Carbon Principles.
- The UK Forestry Standard (UKFS), to whom we provided a letter in response to their consultation on updates to the standard which guides sustainably managed forestry in the UK. Our letter included feedback on topics including the management of carbon in forests, the consideration of forest resilience and climate change adaptation, biosecurity and the need to pay greater attention to people working within forest supply chains.

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

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

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

**Case study: community engagement central to forest development**

*The challenge*

Debates over land-use are increasingly impassioned as society seeks to address multiple environmental and social challenges with limited land and natural resources. It is essential that we ensure local communities understand why we are investing in and creating sustainable productive forestry and that their voice is heard as part of this process.

*The solution*

We are committed to including local communities in all our forest development and management activities. Forests create significant benefits for local people including the provision of access for recreation and education, mental and physical health benefits, as well as providing local jobs and economic value to local rural communities.

New forest developments are complex and detailed processes. Our Forestry team engages with local communities throughout the process and tries to provide for as many competing interests as possible whilst still ensuring the delivery of investment strategies for our clients. The case study below provides an example of how we do this.

**A 3,450-acre site in North Ayrshire was acquired and developed by our Forestry team on behalf of our clients.**

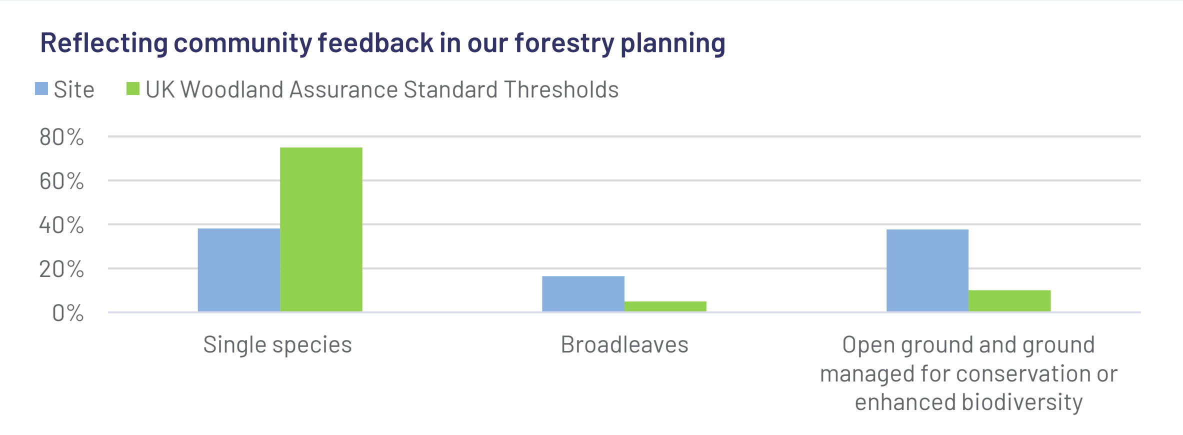
The intention for the site was to establish a sustainably managed productive forest that included a diversity of species, peatland restoration, access provision for local communities, and a run-of-river hydro scheme.

Despite the site being poor quality agricultural land with limited biodiversity, the initial tree planting application and environmental assessment took seven years to approve. During the seven-year period, the Gresham House team and woodland managers met regularly with local groups to discuss all aspects of the scheme.

Local community reactions to the site varied from hostility to enthusiastic support, with access provision and species diversity high on the list of demands from more reluctant locals.

In response to feedback, our Forestry team:

- designed a considerable network of paths throughout the forest and recently replaced a key footbridge on the footpath network to support community access and recreation.
- planned the forest to incorporate a wide range of tree species, both productive (spruce) and non-productive broadleaves to improve the biodiversity of the site, well above the requirements of forestry standards (see chart below).




Source: Gresham House

The forest is now being developed following approval. Trees are still in their establishment phase and the hydro scheme is being expanded to generate more renewable energy for the local area. Access requirements are constantly being discussed and developed with a Local Access Group and our team have a strong working relationship with them.

## 9.4 New Energy

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

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

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

**Case study: engaging with industry stakeholders to drive change**

There is increasing urgency to reduce carbon emissions worldwide and to limit global warming. The New Energy team is fully committed to investment in and development of new renewable energy generation assets and BESS.

Both technologies play an important role in shifting power systems away from fossil fuels to low carbon energy sources and the team contributes to the decarbonisation of energy systems by:

- Investing in additional battery energy storage systems and renewable asset capacity
- Engaging with key stakeholders to drive industry change

The New Energy team continues to engage with key industry bodies and government representatives to encourage policies and regulation that support accelerated decarbonisation of energy systems and the technologies that underly this transition.

In 2022, the New Energy team submitted a response to the government Review of Electricity Market Arrangements (REMA) consultation. The REMA consultation aims to provide the government with recommendations on how the UK can reform electricity markets to achieve its target of decarbonising the electricity system by 2035. The team also regularly engages with other relevant parties, including BEIS, National Grid Electricity System Operator ESO and consultants, to support market changes.

### 9.4.2 New Energy - Wind and Solar

Our engagement approach is primarily focused on our work with developers, asset owners and equipment suppliers during the procurement process and power purchasers, local authorities, operations & maintenance providers and local communities during the operational phase of the project.

Engagement is focused to maximise the delivery of renewable electricity for local and national distribution in a safe and efficient manner with minimal disruption to local communities and habitats.

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

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

**Case study: community engagement central to our sustainable investment commitments and ongoing management approach**

Developing and retaining strong relations with local communities is a key aspect of the New Energy team's sustainable investment commitments, as set out in the New Energy Sustainable Investment Policy. It is also increasingly important in the approval process for new asset development.

For our renewables assets, Community Benefits Funds (the funds) are the main mechanism through which the team contributes to local communities. One such example is the funds supported by our Wathegar wind farms which contribute to two communities in Scotland.

The funds are managed and distributed by a local award-making panel who have set up an Education and Training Fund, aimed at improving local people's opportunities for employment, and a grant-making Trust. In 2022, total funds contributed by Gresham House to the fund and Trust amounted to £120,000. Specific awards[11] included:

- £12,800 to education and training, including grants to support the completion of driving-related qualifications such as Ambulance and HGV licences.
- £10,000 to recruit a new Money Advice and Energy Advice Officer for two years to help local people mitigate the cost-of-living increases.
- £6,000 to alleviate fuel poverty and provide energy efficiency measures for people within the within the Tannach and District area.
- £13,000 to employ a Family Support Worker to provide help for struggling families and improve the situation and prospects of vulnerable children.

In this way, the funds continue to contribute materially to local health, wellbeing and education.

[11] Award allocation decisions are not held by Gresham House. Supported by Foundation Scotland, which acts as administrator, local communities operate their own Trusts which are responsible for award-making decisions.

## 9.5 Sustainable Infrastructure

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

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

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

We always take a board seat or recommend an appropriate individual and usually also take a board observer role as well. 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. This usually means frequent weekly to fortnightly engagement to ensure the portfolio have sufficient support from the Sustainable Infrastructure team.

### Case study: engaging in the planning process for Fornax Environmental Solutions

**Objective:** Fornax Environmental Solutions aims to build and scale small waste incineration plants to safely dispose of clinical and hazardous waste for which high temperature incineration is the only viable option.

The initial investment has supported the construction of Fornax's first plant in Durham, with a pipeline of up to four further high temperature waste incineration plants. Its customers will include the National Health Service, pharmaceutical companies and manufacturing companies. The Durham project faced a series of delays arising from the planning process and the scheme was initially rejected by Durham County Council (DCC) in December 2021.

**Methods:** The Investment Team needed to consider as part of the ongoing monitoring process whether the reason for refusal of the scheme at planning stage would give rise to any need to reconsider alignment of the scheme with BSIF's ESG objectives. This was particularly relevant as there were over 400 public objections to the proposals.

DCC's rejection was against the positive recommendation of the planning officer. The basis of rejection was the use of the site for "sui generis" use when it was designated for B use ("general industrial") in planning policy.

It was clear from liaison with the sellers of the site that interest in the industrial park where the project was intended to be built was not high, therefore there was no concern on the part of the BSIF team that the project would displace a user offering more jobs. In addition, the project would offer 27 permanent well paid roles.

The need for the facility remained compelling based on waste arising data and the facility would be built and operated to the highest environmental standards. All of this combined with the fact the planning process was also being funded by our Development Manager and as such BSIF Funds would not have an abort risk associated with any planning appeal, led the Sustainable Infrastructure team to decide to continue to support the project to the next phase.

**Outcome:** The project was successful in appeal in December 2022 and is now proceeding into the construction phase.

### Case study: escalating engagement at Borderlink

**Objective:** In 2022, Borderlink bid for a number of government contracts to build gigabit-capable broadband to hard-to-reach areas of the North East of England, under Building Digital UK (BDUK)'s Project Gigabit programme. Project Gigabit is a £5bn subsidy scheme designed to support broadband operators to extend the network to the last 20% of homes in the UK.

Borderlink engaged regularly with BDUK in the run-up to the bidding process to help BDUK to shape the contract size and geographies based on their commercial build plans. The intention was to make a case for BDUK to issue contracts that were complimentary to the scale and geography of their existing network footprint.

However, given Borderlink's moderate scale at the time Project Gigabit was being launched, we were concerned that BDUK would not consider Borderlink a credible partner, both with regards to execution risk and funding availability to complete the contracts should they be awarded to Borderlink.

To pre-empt these concerns, we organised a meeting with the senior parties at BDUK to advocate for Borderlink, Wildanet and Telcom (other portfolio companies that would also be bidding). We have since been vocal and proactive stakeholders in the digital infrastructure sector, engaging regularly with BDUK and the wider market to ensure where possible our interests in Project Gigabit were protected and vocalised.

**Methods:** We maintained regular engagement with BDUK throughout the process through one-to-one meetings and through the participation in and hosting of industry events. Where necessary and appropriate, we provided letters of support to make clear our funding commitments to Borderlink included capital to execute on the Project Gigabit contracts they had bid for.

**Outcome:** In September 2022, Borderlink won two prestigious Project Gigabit contracts in Durham and Northumberland worth ~£14mn to build to ~8k rural premises. Wildanet also won a Project Gigabit contract worth £36mn to build to ~19k premises in Cornwall. We will continue to engage with BDUK to support our portfolio companies' continued ambitions in the upcoming procurement processes in their respective regions.

## 9.6 Real Estate (UK Housing)

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

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

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

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

The team was an early adopter of the EIP, and ReSI plc commenced reporting against the standards in 2022, one of the first funds to do so.

**Case study: interview with a shared owner from one of our shared ownership properties**[12]

Jamie and his wife moved into a new ReSI plc shared ownership property in London from Lancashire at the beginning of the COVID pandemic to be close to their daughter. Initially, they sold their property in Lancashire and rented in London for a year. Following this they bought an equity stake in a three-bedroom ReSI new build shared ownership property in London, taking advantage in the stamp duty holiday that was in place at the time.

They were initially hoping to buy outright but found the properties too expensive. They were relieved to find out they were eligible for shared ownership and when they got in touch with the property manager for one of ReSI's buildings they found them incredibly responsive. Jamie is very pleased with the quality of his home. Before seeing the property, he was nervous that new builds can be poor quality and small, however he was pleasantly surprised. All the appliances are Smeg (a high end appliance manufacturer), and he felt no shortcuts had been taken in construction.

Overall, the property is about 800 square foot, which is approximately 250 square foot larger than the property they moved from. Also, as they are on the ground floor it has great disability access, and they have outdoor space front and back.

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[12] Undertaken by The Good Economy

Jamie is really pleased with the shared ownership model. He did not think they would be eligible but when he found out they were he felt it gave them opportunities they would not have had otherwise. Affordability wise, they spend approximately a third of the income on housing costs and although they know they will never staircase out they hope to be able to partially staircase over the years.

**Case study: focus on quality customer service through ReSI Property Management Living (RPML)**

ReSI's Shared Ownership Customer and Environmental Charters are designed to improve practices across the shared ownership sector, while providing benefits to shared owners and investors. Its Customer charter contains a number of stipulations for its partners to ensure the quality of its customer service, including allowing the property to be sold both in or outside the shared ownership scheme, the "SO Plus" staircasing model that allows residents to increase their level of ownership in their home, and the repurchasing of sold equity if a resident faces financial hardship.

ReSI has increased the numbers of properties managed by ReSI Property Management Living (RPML), rather than external property managers, enabling it to provide more bespoke housing management services, and that its connection to ReSI results in a smoother customer experience for residents when they report problems.

As part of the 2022 Good Economy Impact Report, 56% of ReSI plc shared ownership residents surveyed were satisfied with the property management services provided by RPML, while 13% were dissatisfied.

We continue to work hard to improve residents' experience going forward. This includes through an annual review of the performance of all property managers to ensure they are performing in line with service level agreements.

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# 10. Voting

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

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

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

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

## 10.1 Requirements

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

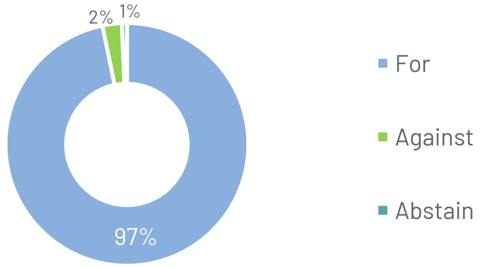
1. Authority to allot shares – it is our policy to vote against anything over 33%.
2. Disapplication of pre-emption rights – it is our policy to vote against anything over 10%.
3. Authorise company to purchase own shares – it is our policy to vote against anything over 10%.
4. Political donations – it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

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

## 10.2 Voting statistics

In 2022, we voted on 100% of all resolutions, voting for management recommendations in 96.8% of resolutions, 2.6% against, and had 0.7% abstentions.

**Public Equity - UK voting in 2022**




We publish our voting records on our website which can be found here. Our Engagement and Voting Policy is also available on our website.

## 10.3 Voting against management

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

Votes against by the UK team remained low in 2022. Wherever possible, our team engages ahead of a vote if we disagree with draft resolutions being proposed. Sometimes this results in resolutions being pulled from the ballot to avoid them being publicly voted against. In an ideal world, our team aims to resolve issues in private to avoid having to vote against.

Of the votes against management in 2022, key drivers were linked to:

- Resolutions not meeting our voting policy requirements, such as non-pre-emptive share issuance thresholds.
- The proposal of transactions that we did not support, as we did not feel they were in the best interest of our clients and company value creation.

## 10.4 Proxy voting providers

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

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

## 10.5 Stock lending

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