



CG Asset Management

UK Stewardship Code Report

FOR THE YEAR ENDING MARCH 2023

cgam

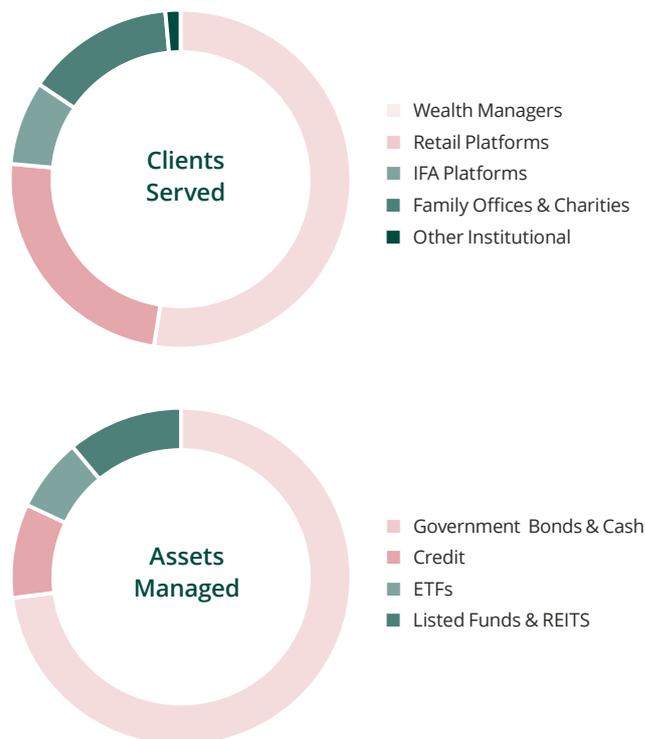
About CG Asset Management

CGAM manages investments on behalf of a wide range of clients, including wealth managers, independent financial advisors, private investors, family offices and charities. Wealth protection sits at the heart of everything we do, our objective is to preserve and over time to grow our clients' real wealth.

CGAM manages two families of funds. The first group invests exclusively in inflation linked government bonds. The second group invests across a range of asset classes with the objective of delivering positive returns regardless of the financial market backdrop.

CGAM is majority owned by an employee ownership trust. Firm culture is the foundation on which all stewardship activities are built. It is our belief that our ownership structure powerfully reinforces a responsible culture and encourages alignment with our clients and broader stakeholders.

For more information:
www.cgasset.com



Foreword

CG Asset Management's founding principles are: the client comes first, don't be greedy and have fun. In the year 2000 these principles seemed distinctly old fashioned, as business schools and corporate institutions preached the creed of shareholder primacy. Today there is a growing understanding that corporate and financial institutions must think more broadly and deeply about their impact on society and the environment. We believe our founding principles were, and remain, a simple manifesto for incorporating wider stakeholder interests into the culture of our firm.

Principles are easier to write than they are to live by. That is why CGAM established an Employee Ownership Trust, to hold a majority of the firm's equity in perpetuity for the benefit of all employees. This is an important statement of our intent to align firm culture with our principles. This ownership structure fosters a higher level of employee engagement, a cohesive environment and a long-term outlook. Such an incentive appropriately pairs employees with broader stakeholders.

This report articulates our approach to stewardship. All investments are subject to the same set of ESG integration rules as described, we do not differentiate between ethical and by implication unethical products. Furthermore, we devote a considerable amount of time and resource to engaging with the managers and boards of the listed funds and companies that we invest in. It is our belief that this engagement improves the management and governance of these companies, which in turn leads to improved environmental and social outcomes. We frequently apply additional pressure on our investee companies via co-ordination with other shareholders, using more public interventions and on occasions the full range of legal tools at our disposal.

Like all aspects of investment management, the demands of good stewardship are constantly evolving as the investment environment itself evolves. What will remain a constant is our adherence to our founding principles: the client comes first, don't be greedy and have fun.

Alastair Laing, *Chief Executive Officer*

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Key Principles of The Stewardship Code

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Purpose, Strategy and Culture

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

1.0 Executive summary

CGAM's track record of long-term value creation is best evidenced by the 41-year track record of our longest standing client, Capital Gearing Trust plc. This combines impressive value creation with high standards of risk management.

CGAM is majority owned by an Employee Ownership Trust. This ownership structure helps to foster a high level of employee engagement, a cohesive environment and a long-term culture.

Our corporate strategy emphasises the benefits of operational simplicity, through offering a limited product suite, maintaining a simple corporate structure and only offering collective funds rather than bespoke client portfolios. This focus on simplicity has allowed CGAM to offer funds with low fees, sharing the benefits of growth with our client base.

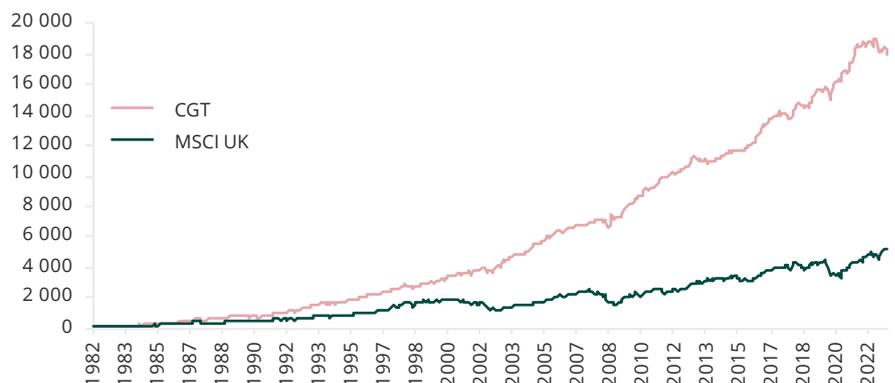
Our principal impact on society, the environment and the economy is via our funds' investment portfolios. Our investment beliefs are detailed in Principle 7. These beliefs ensure that in our primary asset class, sovereign bonds, we only invest in a small sub-group of the highest ranked issuers in terms of environmental, social and governance measures. In our minority holdings in equities, credit and preference shares we believe our use of a combination of negative screening, due diligence and engagement delivers wider stakeholder benefits.

1.1 Long-term value creation

The long-term results of CGAM's approach to stewardship is best summarised by the 41-year track record of our longest standing client, Capital Gearing Trust plc ("CGT"). A shareholder with £10,000 invested in CGT in April 1982, when CGAM CIO Peter Spiller took over managing the trust, would have had an investment worth £2,580,000 as at March 2023, assuming they reinvested their dividends. This value creation was achieved within a framework of strong risk management. CGT has only experienced two years of negative NAV per share performance as measured at its financial year-end. In both cases, those negative years delivered low single digit drawdowns.

NAV total return history

(Rebased) Apr 1982 to Mar 2023



Purpose, Strategy and Culture

1.2 Firm background and history

CGAM is an independent fund manager founded in 2000 by Peter Spiller and David Brazier. CGAM's first client was CGT, a listed investment trust that Peter had managed since 1982 and whose board agreed to the transfer of the investment management agreement to the newly founded CGAM.

Under Peter's management CGT had been an early mover in multi asset investing, combining equities, bonds and commodities within a single fund. This distinctive proposition combined with an impressive track record provided the foundations for CGAM to flourish.

In 2004 the Real Return Fund, which invests into high quality sovereign index linked bonds outside the UK. The Real Return Fund grew rapidly such that by 2009 the fund was hard closed to new investment to protect the interests of existing investors. In 2009 the Dollar Fund was launched, investing exclusively in US Treasury Inflation Protected Securities. Due to the success and scale of these two funds CGAM has built a reputation as one of the leading index linked bond managers operating in London.

In 2016 an open ended sister fund to CGT was launched, CG Absolute Return Fund ("CGAR"). CGAR uses the same asset allocation as CGT, but typically expresses that allocation via liquid securities that are more suitable for an open ended fund.

Strategy	Fund	Launched	AUM	Structure
Absolute Return Long only investments in a portfolio of bonds, equities and commodities	Capital Gearing Trust	1982	£1,290m	Investment Trust
	CG Absolute Return Fund	2016	£1,120m	UCITS
	Capital Gearing Portfolio	2001	£365m	UCITS
Real Return Long only investments in index linked bonds	Real Return Fund	2004	£555m	UCITS
	Dollar Fund	2009	£835m	UCITS

1.3 Employee Ownership Trust ("EOT")

Research confirms that employee-owned businesses tend to have a longer-term focus, greater investment in human capital and wider employee participation in governance. We believe that firm culture is the foundation on which all stewardship activities are built and believe our own ownership structure powerfully reinforces our culture. The EOT structure ensures all employees are owner managers with a collective interest in the long-term success of the firm. The intention in establishing the EOT was to ensure a collaborative firm culture is maintained over time and that the business will always remain independent.

1.4 Corporate strategy

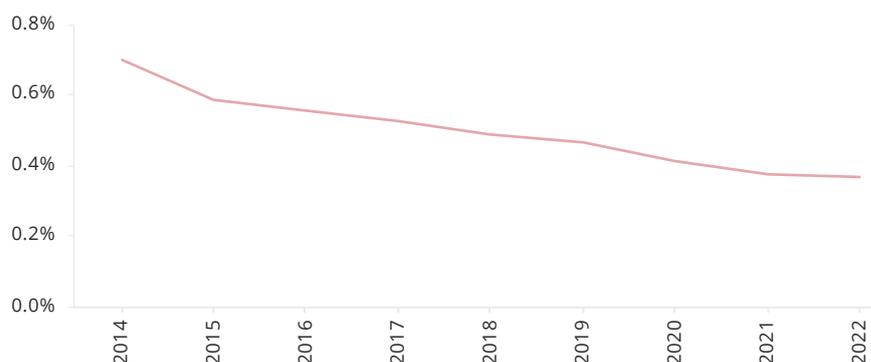
Central to CGAM's corporate strategy is to remain as operationally simple as possible. In practice, this means that our management company is a single corporate entity, not a complex group structure. We focus exclusively on a limited range of funds. We do not employ complex trading strategies. We do not run segregated accounts.

1. www.gov.uk/government/publications/employee-ownership-benefits-and-consequences

Purpose, Strategy and Culture

This operational simplicity allows CGAM to have a low level of core staff relative to its assets under management. Our clients in turn benefit from our careful cost control via lower fees. We seek to charge the lowest fees consistent while offering a high-quality service and seek to share the proceeds of our growth with our clients through reduced fees. We have demonstrated this through consistently lowering the average management fees on all our funds, including repeatedly lowering fees on funds that are hard closed to new investors. This is a tangible demonstration of our principles in action.

Weighted average fees charge as % of AUM



1.5 Investment beliefs

CGAM's aims to preserve, and over time to grow our investors real wealth. In our multi asset funds we seek to generate absolute returns through long only investment in equities, bonds and commodities. In principle the portfolios are designed to represent the entire portfolio of a conservative investor with the following aims: a long-term time horizon, an aversion to capital loss and a total return mindset.

CGAM's investment approach emphasises long only asset allocation as a powerful tool for both capital preservation and superior long run investment performance. Asset allocation decisions are driven by our view of the risks inherent in the macro-economic and capital markets environment.

A significant majority of the assets held by the funds advised by CGAM are invested in securities issued by governments including bonds, treasury bills and cash. Often traditional stewardship activities such as active engagement have limited impact on sovereign issuers. Our approach to sovereign issues, outlined in Principle 7, currently screens out all but the eight highest ranked sovereigns based on our ESG analysis.

CGAM's minority of holdings in equities focuses on collective vehicles including ETFs, listed closed ended funds (also known as investment trusts), and Real Estate Investment Trusts. The portfolios also include a direct allocation to government bonds, credit, preference shares and commodities (primarily gold). The funds do not use leverage or derivatives, nor do they take short positions.

CGAM places particular weight on providing primary capital to high impact investment companies with an environmental or social focus. In our assessment by providing primary capital, via IPO sponsorship or follow on fund raisings, investors have a greater impact than by simply trading securities in the secondary market. We cannot identify any other investment manager of our size that has participated in as many primary capital raises for companies with explicit environment and social goals.

Purpose, Strategy and Culture

Selected examples of high impact companies supported in primary fundraisings by CGAM in recent years:

Aquila European Renewables plc

Bluefield Solar Income plc

Downing Renewables and Infrastructure plc

Foresight Solar plc

Greencoat Renewables plc

International Public Partnerships plc

Gore Street Energy Storage Fund plc

JLEN Environmental Assets plc

Renewable Infrastructure Group plc

SDCL Energy Efficiency Trust plc

Triple Point Energy Efficiency Infrastructure plc

PRS REIT plc

Next Energy Solar Fund Ltd

Gresham House Energy Storage Fund plc

Target Healthcare REIT plc

Impact Healthcare REIT plc

GCP infrastructure plc

BBGI Global Infrastructure plc

Purpose, Strategy and Culture

CGAM's Principles of Stewardship and Responsible Investment

Be honest

No greenwashing, no PR-lead initiatives, no jargon. We believe our stakeholders are best served by an accurate presentation of our activities rather than a marketing campaign dressed up in the language of stewardship.

Ethics, not mathematics

Securing appropriate data is essential to all aspects of investment decision making, including judgements around sustainability. However data has to be interpreted within a specific context. There is no formula that can be applied in a uniform way to every situation; we emphasise **judgement over simplistic third party quantitative scoring**.

Targeted

Whilst supporting positive transition might be the optimal strategy, effective engagement is time consuming. As a small firm we must focus our efforts where they will have the **most impact** rather than taking a generalist approach.

Integration, not separation

We are a small firm and the entire team is **collectively responsible** for our stewardship activities with the ultimate responsibility lying with the chief executive. We do not have a standalone responsible investment team or ESG analysts as this does not seem to us to represent true integration.

One firm, one rule

We do not have an ethical fund range (and by implication an unethical fund range). Our **standards apply to all the funds we advise**.

Engagement over disinvestment

When investors have the influence to effect change it is most valuable to encourage **positive transition** rather than pursuing disinvestment.

Driven by governance

Improved governance leads to improved social, environmental and financial outcomes. **Investors have multiple direct mechanisms to influence governance**, so our engagement activities invariably focus on governance, even when the ultimate objective is positive social or environmental change.

Act, with humility

Every action results in both intended and **unintended consequences**. Reflect deeply on the risk that good intentions can lead to bad outcomes.

Governance, Resources and Incentives

Signatories' governance, resources and incentive support stewardship.

2.0 Executive summary

CGAM has a distinctive governance structure as the controlling shareholder is an employee ownership trust. As a result, three trustee directors, made up of two employees and a non-executive chair, are the ultimate custodians of firm culture, employee incentives and broader stakeholder interests. As the EOT is a perpetual shareholder, its timescale is extremely long. CGAM's wider corporate governance structures extend beyond the trustee directors and offer almost all employees an opportunity to participate, either on the corporate board or at committee level.

Our resources are our people. Every CGAM team member is an owner manager, resulting in a cohesive culture and low levels of staff turnover. The firm is committed to properly developing its staff and ensuring the team incorporates a diverse range of views and experiences.

Staff remuneration is based on salary, bonus and a single firm-wide incentive pool in the form of the annual EOT distribution. This ensures every team member is interested in firm wide success, not just the success of their division of the firm. Our firm only flourishes if our broader stakeholders benefit, thus effective stewardship activities align with the fundamental purpose of the company.

2.1 Governance Overview

Board of the E.O.T. Trustee

Chaired by CGAM's Non-Executive Chairman

The E.O.T. Trustee is the controlling shareholder of the Company

Membership comprises the Chair plus two other Trustee directors, appointed respectively to represent:

- CGAM's executive directors;
- CGAM's non-director employees

Headline Responsibilities

- Meets annually or more regularly as needed
- Distribution of shareholder rewards to employees
- Reports to employees

Board of Directors

Chaired by CGAM's Non-Executive Chairman

Membership drawn from Non-executive and Executive Directors

Headline Responsibilities

- Meets quarterly
- Oversight and control of the management of the Company
- Sets CGAM Strategy; approves financial budgets, accounts and business plans
- Responsible for stewardship activities and compliance with policies

Governance, Resources and Incentives

Audit Committee

Chaired by CGAM's Non-Executive Chairman

Membership drawn from Non-executive and Executive Directors

Headline Responsibilities

- Meets annually
- Oversight of financial reporting
- Appointment and review of external auditor

Remuneration Committee

Chaired by CGAM's Non-Executive Chairman

Membership drawn from Non-executive and Executive Directors

Headline Responsibilities

- Meets annually
- Oversight of the Company's Remuneration Policy
- Oversight of senior management remuneration, incentives and remuneration structures

Investment Oversight Committee

Chaired by Independent Non-Executive Director

Membership drawn from Non-executive and Executive Directors

Headline Responsibilities

- Meets annually
- Oversees the performance and operation of Investment Management functions
- Considers systems and resource requirements

Risk Oversight & Valuations Committee

Chaired by Independent Non-executive Director

Membership drawn from Non-executive Directors, Executive Directors, Operations and Compliance

Headline Responsibilities

- Meets quarterly
- Management and implementation of CGAM's risk management framework
- Oversees the performance of Operations and Compliance functions
- Oversight of the Company's Valuation Policy

Executive Committees:

Responsible Investment Committee

Chaired by CGAM's Chief Executive Officer

Membership drawn from all areas of the business

Headline Responsibilities

- Meets at least quarterly
- Oversight of the Company's responsible investment strategy, actions and goals
- Reports responsible investment recommendations to the Investment Oversight Committee

Asset Allocation Committee

Chaired by CGAM's Chief Investment Officer

Membership drawn from Executive Directors and Investment

Headline Responsibilities

- Meets monthly
- Reviews performance of and determines investment decisions
- Reviews performance of and determines trading strategy

2.2 EOT Governance

CGAM is majority owned by an Employee Ownership Trust. Decision making by the EOT is controlled by three trustee directors. These are made up of a non-executive chairman, a director level employee (not the CEO or CFO) and a non director level employee. This mix is to ensure that the interests of all employees are represented in the governance of the EOT, and there is also non-executive input. The EOT trustee directors are the ultimate guardians of firm culture, employee incentives and stakeholder interest.

2.3 Corporate Governance

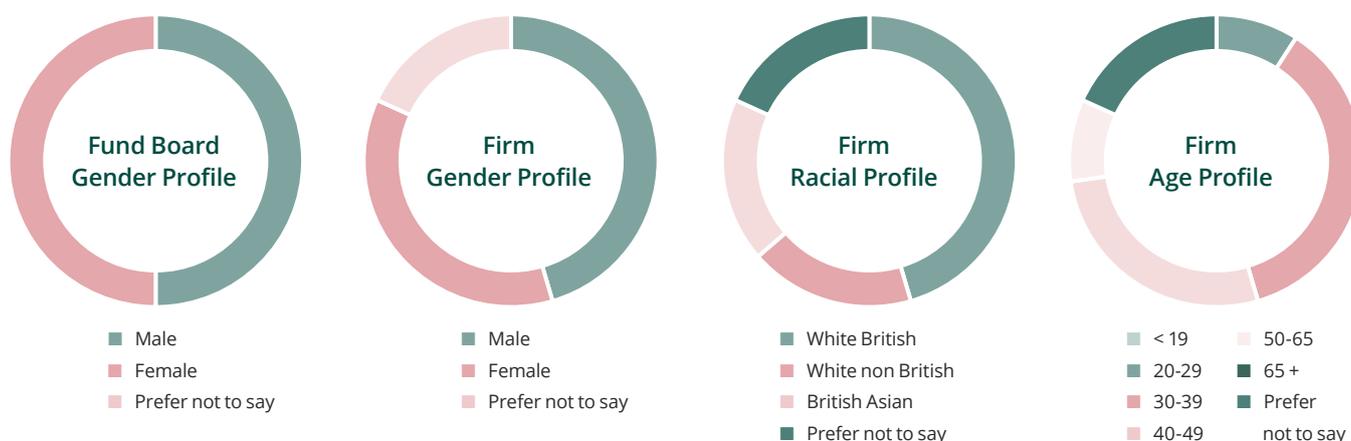
Sitting beneath the EOT is the corporate board and four board committees. CGAM's board has three non-executive directors ("NEDs"). These NEDs have a diverse range of industry backgrounds and provide independent oversight of our business operations and governance.

CGAM is keen to involve as many employees as possible in firm governance to improve transparency and accountability. Over time every employee is encouraged to participate in at least one governance structure. More junior members are invited to take on administrative roles to learn how the governance process works. Typically, staff members progress from administrative roles to full participation after a period.

2.4 Human resource

Human resource is the central resource at CGAM. The principal role of the senior leadership team is to ensure we recruit, train, guide and retain a market leading team.

Research suggests diverse teams that incorporate a variety of viewpoints can deliver better outcomes.



As a small firm with low levels of staff turnover CGAM does not have specific diversity targets, however we are conscious of team make up and background. Due to low levels of staff turnover CGAM is not anticipating significant recruitment activity in the near-term. Our longer-term recruitment strategy is focused on identifying, employing and training junior team members who have the potential to become future leaders of our organisation.

There are currently two recruitment routes into CGAM:



Operations Apprenticeship, in partnership with IntoUniversity

CGAM's experience of recruiting school leavers directly has been positive and as an approach it can be helpful in ensuring a wider range of perspectives are incorporated into the team. Our operations team has launched an apprenticeship recruitment route in partnership with the education charity, IntoUniversity. IntoUniversity provides local learning centres for young people from disadvantaged neighbourhoods to attain their chosen aspiration, including further and higher education, employment and work-based training.



Gain Empower Investment Internship Programme

GAIN's is a charity set up by investment professionals to improve gender diversity in investment management by building a talent pipeline of entry-level female and non-binary candidates. CGAM welcomes GAIN interns each year, and whilst successfully securing an internship is no guarantee of an employment offer, it is a potential route into the investment team.

2.5 Employee Training and Retention



CGAM is a living wage employer.

Every member of staff, regardless of position, has undertaken responsible investment training delivered by the UN PRI Academy. The depth of the training is dependent of the position held but at a minimum each member has completed the Understanding Responsible Investing course, with RI leaders completing the more in depth Applied Responsible Investing course. We support any individuals who wish to extend their training and skills development.

To maximise the value of training it is essential to retain employees and the skills and knowledge they hold. CGAM has exceptionally low staff turnover, with only one leaver in the last five years. This is due to a respectful and supportive culture, reinforced by the universal equity participation via the employee ownership trust.

2.6 Stewardship activities

CGAM's stewardship activities are primarily undertaken by two teams, the Investment Team and the Responsible Investment Committee. The Investment Team have the principal responsibilities for the engagement, escalation and voting activities outlined in Principle 9, 11 and 12 of this document. The Responsible Investment committee have a firm wide role in leading stewardship strategy and have responsibility for collaboration, policy development and reporting.

Participation of these two bodies collectively represent greater than 70% of the firm and include the firm leadership, including the Chief Executive Officer, Chief Investment Officer, Senior Compliance Manager, Head of Investor Relations, as well as other team members.

2.7 Incentives

Over the long-term CGAM can only thrive if our stakeholders benefit from the services we provide. As a result, the most powerful stakeholder alignment comes from the ownership structure of the business that ensures every employee is a shareholder manager with a long-term incentive structure.

CGAM encourages its staff to invest into the funds managed by the firm, aligning their interests with our clients. The senior leadership team have a material proportion of their investable wealth invested in our funds, and the largest asset owned by CGAM is an investment into our funds.

The remuneration committee is made up exclusively of non-executives and has an oversight role relating to firm remuneration structures and incentive payments. All bonuses are paid out of a single firm wide pool, ensuring all parts of the firm are incentivised to co-operate and assist other parts of the firm. To receive a bonus each employee needs to achieve a satisfactory or better appraisal, and included in the appraisal objectives of the relevant staff is the contribution to investment and stewardship activities.

Over time the most significant source of remuneration will be the distributions by the employee ownership trust. EOT distributions are effectively a very long-term bonus plan, ensuring employees retain an interest in the performance of the company whilst employed and for several years after they leave the firm. This structure is designed to align employee remuneration and incentives with long-term performance.

2.8 Non-Executive Directors

Christopher Smith

Chairman



Clementine Vaughan

Non-Executive Director



Killian Buckley

Non-Executive Director



2.8 Executive Team

Investments & IR

Peter Spiller

Chief Investment Officer



Alastair Laing

Co-Manager



Chris Clothier

Co-Manager



Hassan Raza, CFA

Investment Analyst



Emma Moriarty

Investment Analyst



Lisa Bajardi

Head of Investor Relations



Operations

Chris Taylor

Chief Operations Officer



Jason Barlow

Senior Operations Manager



Lydia Groves

Operations Manager



Finn

Chief Morale Officer



Risk & Compliance

Richard Goody

Senior Compliance Officer



Sindy Somander

Finance & Reporting Manager



Conflicts of Interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

3.0 Executive summary

Conflicts of interest are unavoidable but capable of mitigation if robust policy and procedure are in place. At a strategic level it is essential to maintain a business model that minimises potential causes of conflict. For those remaining, unavoidable conflicts, effective mitigation relies on transparency, clear policy guidance and oversight from compliance and governance functions.

3.1 Types of conflicts

Conflicts of interest within our business can arise where:

- the interests of CGAM conflict with those of a client (firm versus client conflicts);
- the interests of one client of CGAM conflict with those of another of our clients (client versus client conflicts).

How we seek to identify and prevent potential conflicts of interest and, where necessary, put in place measures to manage any such conflicts is specified in our Conflicts of Interest Policy. This policy is reviewed and updated by Compliance at least annually.

We have a policy of independence that requires CGAM staff to disregard any personal interest, relationship or arrangement which gives rise to a conflict of interest and to ensure that the interests of clients prevail.

CGAM places significant emphasis on its strong compliance culture, and the efficient operation of systems and controls, to manage issues such as conflicts of interest. Our compliance personnel conduct regular monitoring checks to confirm that internal policies and procedures are followed.

Our business model seeks to minimise potential conflicts of interest. CGAM's sole activity is the provision of investment management services to a small number of funds (clients). The investment objectives of most of the funds under our management are similarly aligned – they are managed along two main strategies of either absolute return or real return – and thus the stewardship activity that is conducted for each client is also similarly aligned.

Furthermore, CGAM does not offer the services of market making or underwriting, nor do we provide investment research to external third parties, and we have no soft commission arrangements in force. CGAM also does not hold client money or assets. We do not therefore have the potential conflicts of interest that arise from such services and activities.

Investment strategy is determined by CGAM's Asset Allocation Committee which comprises all members of the investment team and the strategy is then executed by them, collectively. This helps mitigate the risk of undue influence from one individual.

3.2 Firm vs. client conflicts

Our Conflicts of Interest Policy has identified a list of potential firm versus client conflicts that may impact upon our stewardship activities. They are summarised here:

Conflicts of Interest

- **Connected entity investment decisions** – CGAM always has regard to our obligations to each client, considering such clients' investment restrictions and other relevant factors.
- **Investment as principal** – CGAM may, from time to time, take a long-term or short-term position in a client fund, or co-invest in an investment alongside a client, either directly or indirectly.
- **CGAM staff directorship interests** – certain directors and employees of CGAM may act as a director of a client (see Case Study).
- **CGAM staff personal investments** – directors and employees of CGAM may hold or deal for their personal account in securities of a client or of any issuer in which securities or investments are held or dealt in on behalf of a client.
- **Gifts and benefits** – gifts and entertainment may on occasion be offered to CGAM directors and employees by clients, suppliers or others who provide services to, or receive services from CGAM.

Our policies require that all personal interests, relationships or arrangements be disregarded to ensure that the best interests of all clients are served. All CGAM directors and employees are also subject to CGAM's Personal Account Dealing Policy and a Gifts and Benefits Policy which govern such circumstances.

3.3 Client vs. client conflicts

Our Conflicts of Interest Policy has identified a list of client versus client conflicts that may impact upon our stewardship activities. They are summarised here:

- **Aggregation of transactions in investments** – CGAM may aggregate purchase and sale transactions in investments for clients.
- **Allocation of transactions in investments** – aggregated transactions as referred to above, including costs and expenses thereof, are allocated to ensure that our clients have broadly equal access to a similar quality and quantity of suitable investment transactions.
- **Transactions between clients** – CGAM may make decisions for one client to buy or sell units, shares or other investments in other funds, investment companies or other entities to which CGAM is also investment manager, or effect a transaction between clients whereby one client buys an asset from another client for reasons that are beneficial to each client, on arms' length terms.

At all times dealing in securities on behalf of our clients will adhere to our Order Execution Policy and our Allocation and Priority Policy. Certain funds have clearly defined priorities as described in CGAM's Allocation and Priority Policy.

CGAM's Compliance function maintains a register of actual or potential conflicts. New conflicts are reported to the Risk Oversight Committee, which meets quarterly. There is potential for additional conflicts of interest to arise were CGAM to launch new products or conducts new lines of business and so consideration of these conflicts forms part of the discussion and decision making beforehand.

As previously noted, CGAM is majority owned by an Employee Ownership Trust, which aligns our interests with those of our clients. As staff share in the long-term profitability of the firm, they are interested in long-term stakeholder relationships and the sustainability of the business. Close alignment of the interests of the firm and its clients ensures strong mitigation of potential firm versus client conflicts.

Should conflicts of interest on voting or engagement exist between CGAM and/or a particular client and our wider client base, it is CGAM's policy to act in the best interests of all our clients.

Should an individual, tasked with voting on behalf of our clients, identify a conflict of interest they will escalate to the chief investment officer and recuse themselves from the decision-making process.

Conflicts of Interest

When exercising voting rights on behalf of our clients, CGAM has full discretionary control. We ensure that all votes are cast identically for all clients as all the funds under our management that hold assets with voting rights are managed along similar strategies. The same approach is adopted when engaging with investee companies. CGAM speaks for all funds under our management with the same purpose.

Case study:

A CGAM executive is also a director of one of our clients

CGAM acts as investment manager to a range of UCITS funds. One of CGAM's executive managers also sits as a non-executive director on the board of the UCITS umbrella company, alongside three other independent non-executives. CGAM and the fund board both recognise the conflict of interest that this may pose and ensure that decisions made by the fund board are not unduly influenced by the member of the CGAM executive and indeed the individual does not vote on matters concerning the investment manager.

Case study:

CGT's Zero discount model - aligning our business model with our client interest

The shareholders of an investment trust own assets held within the company. Notwithstanding this self evident statement it is common for the share price of an investment trust to diverge meaningfully from its net asset value per share ("NAV"). For example if an investment trust has a NAV of 100p but a share price of 80p then any selling shareholder suffers a discount of 20%.

Under a zero discount policy the Company undertakes to purchase or issue shares to ensure, that in normal market conditions, that the share price trades as close as possible to the NAV. This ensure any selling shareholder is treated fairly and importantly it allows successful investment companies to grow as well as unsuccessful ones to shrink.

We consider this structure to be the gold standard of corporate governance for investment trusts with liquid underlying assets, which is why we are proud that the board of Capital Gearing Trust plc have adopted it.

Promoting Well-Functioning Markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.0 Executive summary

Systemic risks are those risks that diversification does not protect against because the losses are experienced across the entirety of society. Examples of systemic risks include financial crisis, pandemic, natural catastrophe, nuclear war or rapid climate change.

Climate change is amongst the most complex and consequential systemic risks effecting humanity. Given the scale of this issue and the complexity of the required response, CGAM has created a standalone **Climate Change Policy**. CGAM is committed to implementing the recommendations of the Task Force for Climate Related Financial Disclosure. In 2023 we will produce our first standalone interim TCFD report. Within our quarterly responsible investing reporting we disclose CGAM's scope 1 and 2 emissions and shortly will report on our portfolio emissions per \$m invested.

Every individual investor has a duty to take those actions they can to minimise systemic risk, however by definition no single participant of a system can fully mitigate systemic risk alone. Therefore mitigation is best achieved by collaborative action. We also acknowledge there are many areas in which we can benefit from, and leverage the insights of, larger and more experienced collaborators who are leaders in the field of systemic risk. There are a wide range of institutions and initiatives that facilitate collaboration to monitor and mitigate systemic risk. CGAM is a signatory to, or member of, the UN PRI, the UN Global Compact, the Association of Investment Companies and the Investment Association.

4.1 Risk management at CGAM

As noted under Principle 1, CGAM's investment approach seeks to preserve and grow investors' capital in real terms. The identification of risk, and our mitigation of it, is therefore a central part of both the management of our business and our approach to the investment of our clients' assets. We believe that transparency and disclosure of financial risks and opportunities are a critical step in promoting well-functioning markets. The ongoing monitoring of our investments includes the identification of and response to market-wide and systemic risks.

As outlined under Principle 2, CGAM's Risk Oversight & Valuations Committee is responsible for the identification, oversight and management of risk across all aspects of our business, ensuring that appropriate measures are in place. Specifically, the Risk Committee seeks to identify, quantify and mitigate a broad spectrum of risks including: investment risk, liquidity risk, counterparty risk, operational risk, business risk, compliance and legal risk, financial risks (including currency risk and interest rate risk) and conduct risk.

CGAM's Asset Allocation committee has the oversight role as relates to investment risk within the portfolios. Systemic risk to the financial system is frequently caused by excessive build-up of leverage, either through borrowing or speculative use of derivatives. CGAM does not use leverage to increase investment returns and does not make speculative use of derivative contracts.

Promoting Well-Functioning Markets

4.2 Climate Change

Climate change is widely recognised as one of the most significant and challenging systemic risks facing society, the global economy and financial markets. We are acutely aware of the risks that climate change will pose if sufficient action is not taken to minimise carbon emissions.

The physical effects of climate change pose a disruptive impact to both the wider economy and our business over the medium to long-term. As a single-office investment management firm located in London with a small operational carbon footprint, the climate-related risks associated with the assets we manage on behalf of our investors will be far greater in magnitude than those we face operationally. CGAM's investee companies are exposed to the transition risk associated with shifting to a low-carbon economy.

CGAM's approach to climate change mitigation is captured in our **Climate Change policy**. CGAM is implementing a fully integrated approach to managing the impacts of climate change, and supporting the transition to a net zero economy, across both our investment activities and our wider business. CGAM has developed its climate strategy in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD").

4.3 Collaboration

Over the past year, CGAM has evolved its collaboration with wider stakeholders and industry groups to promote well-functioning markets. Whilst CGAM has always sought to be a responsible market participant, we recognise the increased urgency to address climate change and so have taken a more active stance in engaging in collaborative initiatives.

CGAM has been a signatory to the United Nations' Principles for Responsible Investment ("UN PRI") since 2020. Our ongoing involvement in this initiative underlines the importance we attach to incorporating ESG factors and stewardship, both within our investment process and to contributing towards a well-functioning financial system. We believe that through participation in and collaboration with industry initiatives we can assist in improving policy making and engagement with market participants and companies.

We are signatories to or members of:

Network / Association

Summary



PRI is a United Nations supported international network of financial institutions working together to implement aspirational sustainability principles.



The UN Global compact is a network of businesses that have adopted sustainable and social responsible policies, and report on their implementation.



The AIC supports and promotes the long-term benefits of investment companies by engaging with members, investors and the wider financial community



The IA champions UK investment management to support savers, investors and businesses.

Case study:

We need to talk about Bitcoin (updated), a special report on Cryptocurrency

CGAM considers bitcoin to be antithetical to the principles of ESG investing and to pose potential dangers to the integrity of the financial system. After following the development of bitcoin for many years we have become increasingly concerned as an increasing number of institutional investors invested into the asset class, helping to legitimise it. Much of the public discourse on benefits and issues surrounding bitcoin seemed to skirt around some significant issues which include:

1. Bitcoin is an environmental disaster. It is estimated that the bitcoin network consumes as much electricity as Chile and has a carbon footprint equal to the population of New Zealand. For what benefit?
2. Bitcoin is a social disaster. The primary uses for bitcoin outside of speculation, is for settling illegal transactions including drug dealing, money laundering, child pornography, terrorism, extortion and assassination.
3. Bitcoin is a governance disaster. Central to the attractions of bitcoin is the decentralised nature of the network, which places it outside the reach of proper governance oversight or regulation. This means solving the problems identified are all but impossible.

We released an extensive research paper on bitcoin in January 2021 seeking to raise the profile of these issues and others in the public discourse around crypto currency. It was updated and re-released soon after the collapse of the crypto exchange FTX, in November 2022.

We need to talk about Bitcoin



Signatories review their policies, assure their processes and assess the effectiveness of their activities.

5.0 Executive summary

CGAM's stewardship activities are governed by a range of policies, the most important of which is our Responsible Investment policy. The policy documents relating to stewardship are publicly available on our website to ensure transparency and to allow scrutiny by any interested stakeholder group.

Our policy documents are formed using input from various parties. The policies seek to incorporate our institutional principles, client feedback, best practice as defined by industry and regulatory bodies and input from third party advisors.

Policy adherence is monitored by our internal compliance function using internal and third-party data and analytics. We also engage third party consultants to provide oversight. CGAM reports on stewardship activities quarterly on a by fund basis, and annually on a firm wide basis.

5.1 Policy summary

As relates to stewardship activities the following policies are the most relevant and are all available on our website.

Policy Document	Description	
Responsible Investment Policy	Describes our overarching philosophy, practice and approach to responsible investing	
Climate Change Policy	Details our approach and aspiration towards climate change in more depth	
Engagement Policy	Summarises how we approach engagements with our investee companies and other stakeholders	
Voting Policy	Outlines our approach to proxy voting	
Equity, Diversity And Inclusion Policy	Describes how we seek to promote participation within our firm	
Anti-Bribery Policy	Details our firm's approach to bribery, gifts and inducements	

Review, Assurance and Assessment

5.2 Policy formation and review

Our policy documents are informed by input from several parties. The policies seek to incorporate our institutional principles, client feedback, best practice as defined by industry and regulatory bodies. Furthermore, we take expert third-party advice. Compliance reviews every policy on an annual basis, and these are signed off by the Board. The review process is intended to ensure the policies are being executed correctly, highlight any issues and improve the policies so that they are in line with CGAM objectives and values.

5.3 Effective implementation of the Responsible Investment policy

Our **Responsible Investment (“RI”) policy** is the main policy governing stewardship activities which builds on all the other policies mentioned above. The day-to-day responsibility for policy implementation sits with the RI Committee which is chaired by the Chief Executive and is made up of five members from different teams across CGAM. The RI Committee sets itself annual targets and KPIs which it reports against to the Board. The RI Committee meets at least quarterly or at alternate intervals as deemed necessary by the Chair.

Role	Participant	Team within CGAM
Chair	Alastair Laing	Chief Executive
Member	Emma Moriarty	Investment Team
Member	Lisa Bajardi	Investor Relations
Member	Richard Goody	Compliance
Secretary	Sindy Somanader	Finance and reporting

The RI policy is updated annually by the RI committee, formally scrutinised in the Investment Committee and is approved by the board. The RI committee has several KPIs, which it updates annually and reports against to the Investment committee.

The Risk and Compliance team regularly monitor the firm, assisted by external consultants, considering its conformity to regulatory requirements and CGAM policies. As an extension to this, Compliance maintains a risk register which is derived from information the Operations team maintains. The risks that are most significant are considered further in the Internal Capital Adequacy and Risk Assessment (“ICARA”). The risk register is reviewed quarterly and the ICARA is reviewed annually by the Risk Committee and the Board, or whenever there are material changes to the risks presenting to CGAM.

5.4 Third party data and oversight

CGAM works with a variety of third parties to augment our inhouse RI work, including consultants and specialist data providers. For investment integration we have access to ESG data from Bloomberg, Morningstar (Sustainalytics), MSCI Ratings and S&P Global ESG.

Sancroft

We also work with sustainability consultant, Sancroft, who provide advisory input into our RI processes.

Review, Assurance and Assessment

5.5 Training

Every member of staff, regardless of position, has undertaken responsible investment training delivered by the UN PRI Academy. The depth of the training is dependent of the position held but at a minimum each member has completed the Understanding Responsible Investing course, with RI leaders completing the more in depth Applied Responsible Investing course.

5.6 Reporting

As documented in Principle 6 CGAM is committed to reporting on its stewardship activities extensively. The demands of regular reporting can act as a significant driver to implement, document and improve processes, and to open them up to scrutiny and feedback.

Quarterly responsible investment reporting	By fund
Quarterly proxy voting record	By fund
Annual stewardship code reporting	Firmwide
Annual PRI reporting	Firmwide
Annual proxy voting record	Firmwide
Annual TCFD reporting	Firmwide

Client and Beneficiary Needs

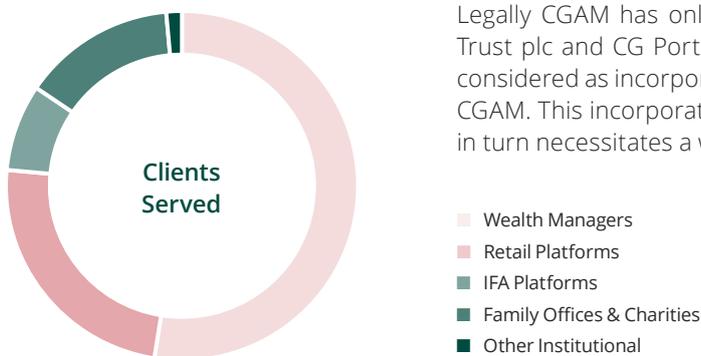
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

6.0 Executive summary

CGAM serves a wide range of clients, including wealth managers, independent financial advisors, private investors, family offices and charities. To understand our clients' needs CGAM uses a wide range of channels to capture investor feedback and actively solicits their views in relation to stewardship activities. To capture as much feedback as possible CGAM makes use of digital tools for breadth of feedback as well as face to face interactions for more in-depth client understanding.

The range of investor and stewardship reporting produced by CGAM also reflects this client diversity. To make our reporting as accessible as possible we make information available in a variety of different formats and via a range of different channels to suit individual investor needs.

6.1 CGAM's clients



Legally CGAM has only two clients, the funds that it advises, Capital Gearing Trust plc and CG Portfolio Fund plc. In practice CGAM's client base should be considered as incorporating those investors that invest in the funds managed by CGAM. This incorporates a broad spread of investors and investor types, which in turn necessitates a wide range of feedback channels and reporting options.

6.2 Understanding client needs

Much of our understanding of client needs come from face-to-face dialogue with our long-standing client base. As CGAM has managed a small number of funds for a lengthy period, the quality of our client relationships allows for an open dialogue. However, we also acknowledge that it is important to try to capture feedback from as broad a range of clients as possible and to periodically systematically capture views on key areas of evolving need. Given the increasing prominence and interest in stewardship activities over the last few years we have tried to systematically capture client feedback by using the following channels.

Client and Beneficiary Needs

Feedback type

Face to face feedback

ESG questionnaires

Investor surveys

Typical client type

Wealth manager, institutional, family offices and charities

Wealth manager, institutional, family offices and charities

Self-directed private investors

During 2023 CGAM installed a new CRM database and ESG data base to ensure systematic capture of client feedback and ease of information recall by team members. Whilst there are inevitably a range of views expressed in feedback there are some clear patterns that have emerge from the data we have collected from these sources.

Are there initiatives you particularly like investment managers to follow?



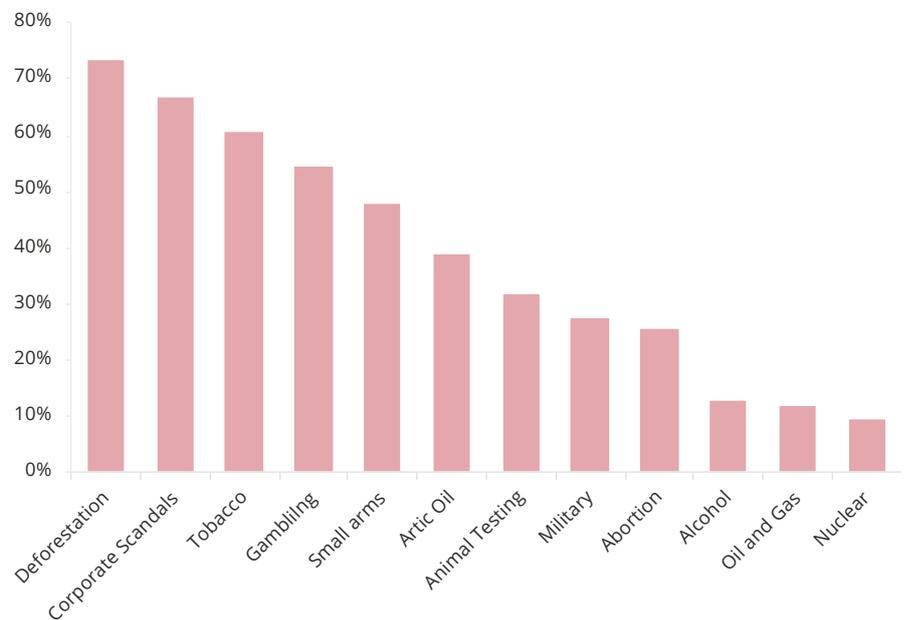
Source: CGAM ESG Questionnaire

Which area of ESG is most important to you when making investment decisions?



Source: Interactive Investor Survey

Share of investors unwilling to invest in:



Source: Hargreaves Lansdown ESG survey

6.3 Communication of investment activities and outcomes

CGAM's communication objectives are to ensure all current and prospective investors can get the information they need easily from their preferred channel. As they do this, they should have an intuitive experience and enjoy high quality client service if the communicate with us directly.

Depending on the type of investor and the size of the investment they hold, they will want to use different channels to access the information they need. Many small and medium sized clients will be happy to source their information exclusively from the press, digital channels and written reports. However more engaged clients need to have the opportunity to access the team directly via conferences and one-to-one meetings. Thus, we think of investor communications as a funnel with broad, digitally distributed and standardised communications at the top and bespoke one to one meetings at the bottom. There needs to be coherent high-quality options available to investors in every part of the funnel.



Client and Beneficiary Needs

Within our investor universe, there has also been a push towards a more institutionalised approach to due diligence questionnaires to capture operational, investment and stewardship information. In recognising that shift, CGAM subscribed to due diligence platforms including Door and AssetQ, which offer clients standardised reporting, along with functions for bespoke requests, all at no cost to the client.

6.4 Communication of stewardship activities and outcomes

We have seen a significantly greater demand from our clients to access information relating to CGAM's responsible investment and stewardship activities. To meet this need, as from Q1 2023 CGAM is committed to publish a range of stewardship reports to cover a range of investor needs, which has been informed by our client feedback.

Quarterly responsible investment reporting	By fund
Quarterly proxy voting record	By fund
Annual stewardship code reporting	Firmwide
Annual PRI reporting	Firmwide
Annual proxy voting record	Firmwide
Annual TCFD reporting	Firmwide

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

7.0 Executive summary

As long-term, risk averse investors, we must be confident that we invest in issuers – both corporate and sovereign – that we believe will be able to generate cash flows in a sustainable way over a long-time horizon. To this end, our approach to investing focuses on valuation fundamentals in their long-term context, and we avoid short-term noise and complex trading strategies.

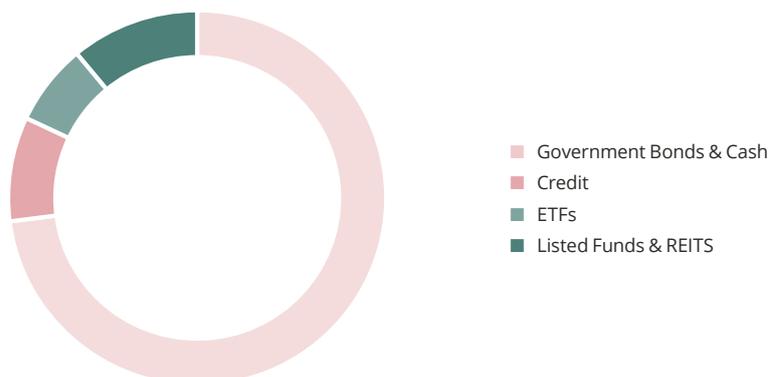
We believe in the importance of a fully integrated approach to incorporating ESG factors into our investment decisions. We do not have a separate ‘ESG Team’ or siloed ESG staff. Rather, our view is that all fund managers and investment analysts must engage in ESG analysis of current and potential investments and we view it as a fundamental part of our investment process. To ensure that all our staff are equipped to undertake this analysis, in addition to on-the-job training, we have also ensured that all CGAM staff have received a structured training course on Responsible Investment from the UN PRI Academy.

As funds advised by CGAM invest across a wide range of asset classes, we have developed a range of integration approaches specifically tailored to the characteristics of each asset class. These integration approaches have been developed in house but draw heavily on best-in-class approaches developed by third parties.

7.1 Strategic prioritisation of asset type

Funds advised by CGAM invest in a diverse range of asset classes. Each asset class lends itself to different stewardship approaches based on the data quality and potential for CGAM to influence the issuer. Where we have less influence, we are more likely to pursue exclusions. Exclusions are a less effective form of stewardship, but it makes no sense to expend significant resources engaging in areas where we are less likely to make material impact.

Investment by asset type



7.2 Direct corporate credit and preference shares

For our investments in direct corporate credit and preference shares, we recognise that by virtue of our small participation relative to the overall size of these markets, we will have limited ability to influence corporate issuers. Accordingly, our primary approach is to exclude corporate issuers who are engaged in the following activities:

Exclusion Area	Exclusion sub Area	Threshold
Controversial Weapons	Anti-personnel mines, cluster munitions, chemical weapons	0%
Tobacco	Manufacture or marketing	< 5%
Thermal Coal	Coal mining or coal based energy production	< 5%
Oil Sands or Arctic Drilling	Production	< 5%
Gambling	Services	< 5%
Adult Entertainment	Production or broadcasting	< 5%
Firearms	Manufacture	< 5%
Predatory lending	Services	< 5%

7.3 Exchange Traded Funds

Our funds also hold small quantities in exchange traded funds (“ETF”s). CGAM does engage directly with our approved panel of ETF providers to encourage improved stewardship standards. However, our capacity for effective engagement is limited, and therefore we consider exclusion where there are suitable ETFs available, which is typically via an ESG-screened ETF.

7.4 Equity investment: listed closed-ended funds, investment trusts, REITS and property companies

The bulk of our equity investment is made through collective investment vehicles (such as investment trusts), which are in turn invested in a range of other corporates. CGAM has a long history of active engagement in the London market for closed-ended listed vehicles, and this active engagement is central to our ESG strategy. Accordingly, before deciding to invest in an investment company, we will undertake due diligence on ESG factors, but do not employ any systematic exclusions as we view active engagement with issuers as an important way of seeking positive transition on a variety of different ESG grounds. Principle 9 describes our approach to ongoing ESG engagement with our investee companies.

Beyond this, we place weight on providing primary capital to high impact investment companies with an environmental or social focus. In our assessment, by providing primary capital, via IPO or sponsorship or follow-on fund raisings, investors have a greater impact than by simply trading securities in the secondary market.

Stewardship, Investment and ESG Integration

7.5 ESG analysis of individual issuers

We are long-term investors and seek to invest in companies that can generate cash flows in a sustainable way, and we carry out detailed company-level analysis of all corporate issuers before deciding to invest.

Our investigation prior to deciding to invest in a company involves analysis of the sustainability of its earnings generation and capital structure. To supplement this, we conduct ESG research into an issuer ahead of making an investment, acknowledging that ESG factors will be integral to the issuer's ability to generate earnings on a sustainable basis.

This research focuses both on the way in which the company is managed (e.g. their own corporate governance, and approach to responsible investment), its exposure to 'high risk' sectors, and its engagement with the ESG issues that are most relevant to their business model.

The table below sets out the most frequent ESG issues that we engage with in analysing issuers as potential investments:

ESG factor	Specific issue
Environmental	<ul style="list-style-type: none"> • Transition to net zero • Pollution • Natural resources
Social	<ul style="list-style-type: none"> • Housing and social welfare • Public health • Human rights
Governance	<ul style="list-style-type: none"> • Board oversight and governance effectiveness • Discount management • Sustainable capital structure • Excessive remuneration and fee charging • Diversity and inclusion

7.6 Investment process

We do not have a prescriptive checklist for assessing ESG factors. Rather, our approach focuses on identifying and assessing the most significant ESG issues to an individual issuer, so the exact set of ESG issues that we probe will differ depending on the investment.

However, there are two important ESG themes that we view as broadly applicable across all issuers.

The first is governance. Governance has always been at the core of our stewardship strategy, and we believe that strong governance is an important precondition to improved social, environmental and financial outcomes. Some of the most important features that we look for include:

- Alignment of the interests between management and shareholders through policies to avoid excessive remuneration and fee charging, and emphasise sustainable long-term profitability;
- Adherence to discount control policies to ensure shareholder confidence in net asset values;
- Allocation of capital in a way that creates value, and avoids excessive leverage;
- Effective risk management and disclosure, especially around ESG issues;
- Willingness to engage and interact with shareholders.

The other important theme that all issuers face is climate change. The physical and transition risks associated with climate change will affect all issuers – financially and operationally – and we believe that companies' ability to generate positive cash flows on a sustainable basis into the future will be tightly linked to their ability to plan and adjust their business models to manage climate risks and take advantage of any opportunities that arise from the transitions.

Our current asset allocation has a high weighting to sovereign issuers, and we have had a strong history of participating in equity raisings for listed investment trusts in the renewable investment infrastructure, which actively contribute to the net zero transition. This means that our portfolios currently have low carbon emissions associated with them. However, we monitor climate-related issues facing our investments as a priority and engage actively with corporate issuers on the adjustments that their businesses must make to ensure their readiness for the net zero transition.

Similarly, CGAM also supports the movement towards enhanced climate disclosures, and we have begun disclosing information about our Responsible Investment activities, including carbon emissions intensity, on a quarterly basis. We are also working towards producing disclosures in line with the recommendations in TCFD on a best endeavours basis over the next 12 months.

7.7 Sovereign issuers

Most funds advised by CGAM are invested directly into government bonds. Unlike our investments in collectives, we acknowledge that our ability to influence governments is limited, and so we apply a set of screens prior to making investments that are designed to ensure that we invest only in government securities that maintain the highest ESG standards. This means that we invest in a narrow universe of government issuers.

At present, these governments are:

- United Kingdom
- United States
- Japan
- Germany
- Sweden
- Denmark
- Canada
- Australia

To help us assess the ESG credentials of government issuers on an ongoing basis, we consider indices and metrics compiled by international organisations such as the International Monetary Fund and World Bank, as well as by non-governmental organisations. We review government statements of policy as needed to inform our judgement.

The table on the next page provides a summary of the 'top level' criteria that we use to screen our investments.

Data Compiler	Index	Criteria
	World Bank Governance Effectiveness Index	Top quartile
	World Press Freedom Index	Good or satisfactory
	Global Freedom Score	Free rating
	UN Human Development Index	Very high human development rank
	Net Zero by 2050 Statement	Statement of intent by 2050 or earlier

In line with the UN PRI's 'Practical Guide to ESG Integration in Sovereign Debt,' we supplement our screening factors with more detailed analysis of a wider set of quantitative indicators around governance effectiveness, human development, freedom, and environmental policy and impact. Where necessary, we also undertake more detailed review of the particular ESG issues that are most pertinent to each government (e.g. US debt ceiling, ageing population in Japan).

The aim of our analysis of sovereign issuers is to ensure that they have the social, political and economic institutions in place to provide minimal risk to our clients' capital and to act as an anchor to our portfolios over the long-term.

Monitoring Managers and Service Providers

Signatories monitor and hold to account managers and/or service providers.

8.0 Executive summary

As an engaged stakeholder, CGAM regularly meets with external investment managers. These interactions cover investment returns, ESG and other developments to closely monitor performance against a range of criteria.

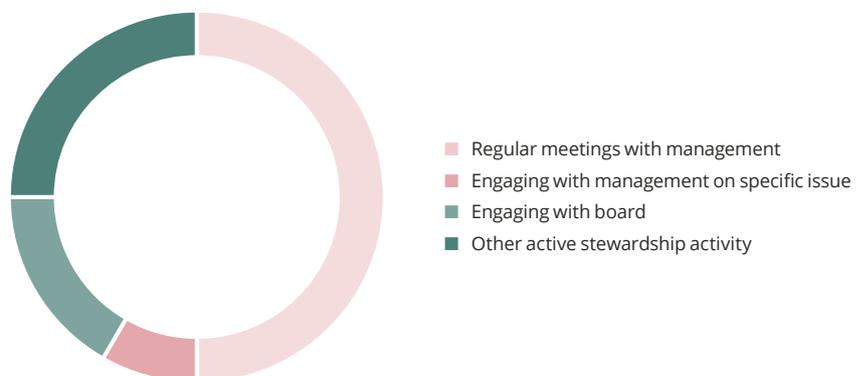
Effectively holding managers to account significantly rests on effective data management. It is essential that engagements are properly logged, outstanding questions are followed up and that information and decisions are easily available to all relevant staff members. As a small firm this information coordination is simpler for CGAM than for other organisations, however the firm has invested significantly in upgrading our information management systems. This investment has included creating a new ESG database to monitor engagement activity effectively.

Beyond external investment managers, CGAM has a range of service providers relationships including the outsourcing of certain critical activities. The management of service providers is governed by our Outsourcing Policy, which stipulates expected standards of due diligence, tendering, hiring, monitoring and termination of service provider relationships.

8.1 Monitoring investment managers

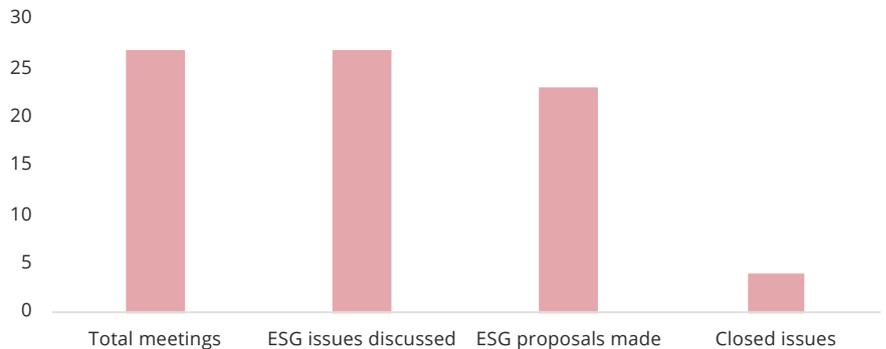
Interacting with and holding to account third party managers is a core responsibility of CGAM's investment team. During 2022 the investment team designed and implemented improved information management systems to systematically log all the monitoring activity across our firm. These new information management systems were implemented at the start of the calendar year 2023, so the monitoring and engagement data captured in Principle 8 and Principle 9 relate only to the activity during the first three months of 2023.

Breakdown of investment manager monitoring activity



Monitoring Managers and Service Providers

ESG Interactions Summary



8.2 Monitoring other service providers

CGAM relies on a range of service providers. These relationships arise when responsibility for certain activities have been transferred to third party firms. The management of service providers is governed by our Outsourcing Policy, which stipulates expected standards of due diligence, tendering, hiring, monitoring and termination of service provider relationships. Our Outsourcing Policy differentiates between the outsourcing of critical and non-critical functions, with standards of monitoring set at appropriate levels for the criticality of the activity transferred. Critical service providers are listed within the Outsourcing Policy.

Critical service provider relationships are governed by service level agreements, contracts which stipulate deliverables, key performance indicators and standards of operations expected by our service providers. KPIs are reviewed within structured service review meetings which are held quarterly, or in case of certain service providers more frequently.

8.3 ESG ratings

CGAM has access to, and carefully considers the judgements of, ESG ratings agencies. Whilst ESG ratings can provide valuable insight in certain situations, we believe there are real risks associated with ESG ratings being incorporated uncritically into systemic financing decisions, market structure or regulation.

During 2022 the EU consulted on the use of credit ratings as an integral part of its sustainable finance strategy. During that consultation period CGAM released an open letter highlighting our concerns around these developments.

In summary, a reliable and universal ESG scoring system for investments would be an invaluable tool for ESG decision making. So valuable that several data oligopolists are racing to get their ratings widely adopted despite clear evidence that the approach is fundamentally flawed.

History is littered with analogous initiatives of limited value and in certain cases that did more harm than good. Before this algorithmic approach to ESG integration becomes too deeply woven into the fabric of the financial system, it is worth asking some very searching questions.

Our open letter is available here. [↗](#)

Signatories engage with issuers to maintain or enhance the value of assets.

9.0 Executive summary

Engagement with our third-party managers and security issuers is one of the central roles of the investment team. The cause for engagement can range from periodic updates on recent developments, thematic engagements that CGAM carries out systematically across similar portfolio holdings or the identification of specific areas of concern at investee holdings.

Over Q1 2023 CGAM conducted a significant exercise in updating our engagement database to capture engagement activity with more granularity and to allow for better information sharing across the team. The activities summarised in this section only represent those undertaken towards the end of the reporting year, after the implementation of the new database. In that period CGAM's investment team carried out 32 engagements with 27 companies. Due to the volatile market conditions encountered in 2023, this period has turned out to be particularly busy!

9.1 A systematic, integrated approach to engagement

At CGAM, we spend a considerable amount of time and resource on engaging with the management of the companies that we invest in. Our approach to engagement is governed by our **Engagement Policy**.

To better capture the breakdown of our engagements, in 2023 we have built an internal database to record our engagement activities. This allows us to classify our engagements by:

- Issuer
- Funds invested
- Team members involved
- Nature of the engagement
- Subject matter of the engagement
- Applicable UN Sustainable Development Goals

As set out under Principle 7, CGAM's ESG engagement is a fully integrated part of the investment process and is conducted by the members of the investment team. We endeavour to engage as widely as possible across our investee companies, however we prioritise our engagements based on the size of our holding (both in absolute terms and in the context of the investee company's shareholder base), the importance of the engagement issue, and the likelihood of achieving our desired outcome.

While we always focus our engagement with investee companies on the highest priority issues they face, we also engage thematically across companies in a sector or subsector where our internal analysis suggests that issues are more wide-ranging.

Engagement

9.2 Thematic engagement

Recent examples of thematic engagement include engagement across the investment trust sector to ensure that boards continue to adhere to the discount control policies set out in their public reporting, which is an issue that has become particularly acute given the derating of the sector over the past nine months. Another recent thematic engagement has been on sustainable capital structure across the property sector, where falling asset values, increasing interest expense associated with floating rate debt and increasing loan-to-value ratios have the potential to threaten sustainable earnings generation.

The other area where we have thematically engaged property companies is on their net zero transition and clean energy. This aligns with our focus on renewable infrastructure investment trusts, and the role that these will play in the clean energy transition. Similarly, we have also thematically engaged property companies on their net zero transition strategies, with a particular focus on the required period and expenditure for refurbishments to buildings to comply with well-publicised upcoming environmental regulations which mean that landlords will need to improve the EPC ratings of their buildings over the coming years.

9.3 Systematic engagement reporting

Since the introduction of our new engagement tracking database, this year, we have conducted 32 formal engagements with 27 companies, across a range of ESG issues. The most frequent drivers of our engagement in were governance issues. This is in line with CGAM's historical focus on governance in the London listed investment trust sector.

ESG Areas Raised



By far our most frequent method of engagement with companies was through our regular meetings with management, following the release of their interim and/or annual results (see Chart 2). However, over the course of this quarter we have also engaged with boards and with other shareholders.

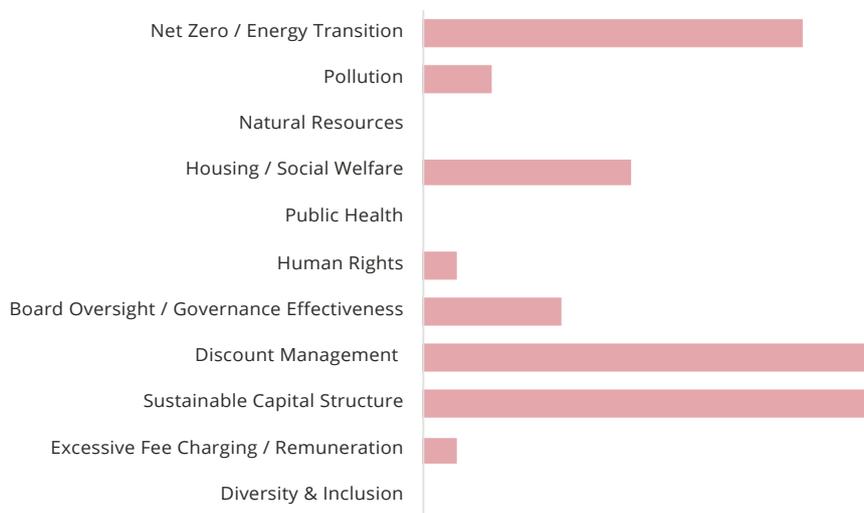
Every engagement is conducted by the members of the CGAM Investment Team who are closest to the company. This is in accordance with our approach that ESG and shareholder stewardship should be fully integrated into our Investment Team, rather than by separate ESG-focused staff. It is also intended to build further our team members' experience of and relationship with the management and boards of investee companies.

9.4 Engagement areas in detail

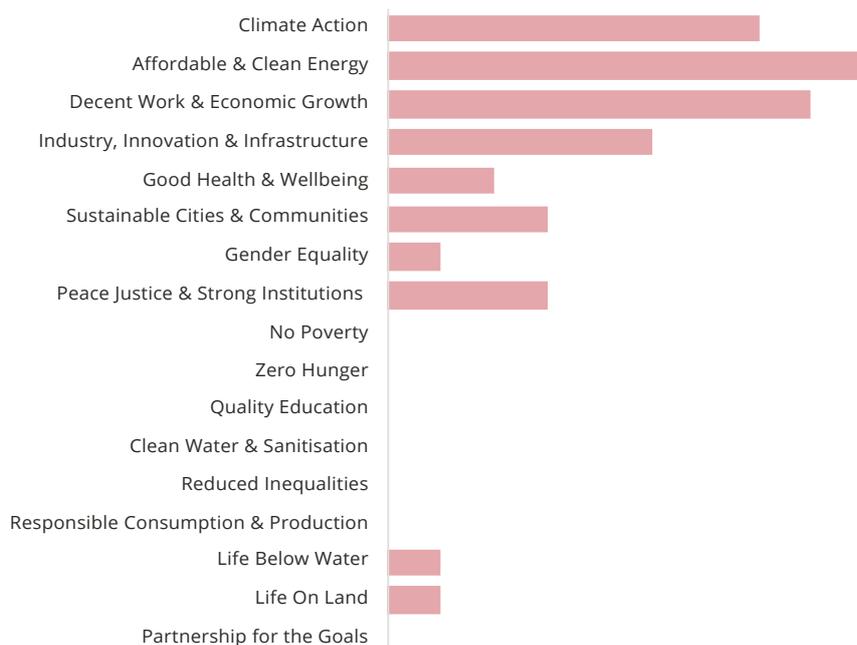
Our most frequent areas for engagement are governance-focused, which is in line with CGAM's history of engagement in the closed-ended fund sector in this area. The two issues raised most frequently – discount management and sustainable capital structure – are features of the economic and financial system landscapes that have emerged in the second half of 2022, where a rising interest rate environment caused investment trust discounts to widen substantially and has increased the focus on debt refinancing aspects of capital structure.

The other two important recurring issues are net zero transition, where we have engaged thematically across firms on their transition plans. Similarly, the other area of frequent engagement is on social housing. We have engaged actively in this area after industry-wide concerns about the standard of care being provided to social housing tenants by registered providers.

ESG Areas Raised (Detail)



UN SDG Areas Raised



Engagement

We are also committed to active ownership as an investor and to the furtherance of the UN Sustainable Development Goals ("SDGs"). Therefore, we use the SDGs as a prompt for particular avenues of engagement with investee companies, and track our engagement against these themes. Climate action and clean energy are focus areas, given our policy of engagement on climate, and our proactive investment in renewable energy investment trusts. Our governance engagement has focused on building strong institutions, focusing particularly on management and board accountability.

Recent engagement examples:

Company	Category	Summary
Aquila European Renewables plc	Social / Governance	We engaged extensively with the management and board of the fund in the quarter regarding a range of subjects. One area of focus in our manager engagement was further understand the dispute between Sami Herdsman versus the Norwegian government and Aquila. We also discussed appropriate capital structure and potential steps to reduce the discount.
Impact Healthcare REIT plc	Social / Environmental	We engaged with management regarding refurbishing their properties for greater energy efficiency and to meet net zero transition plans. We also covered standard of care/provision in care homes, appropriate capital structure and potential for share buybacks to improve discount.
Enquest plc (Bond holding)	Environmental	We engaged with management to understand the financing of various initiatives including potential carbon capture projects, capital expenditure to reduce the CO2 intensity of their operations and the potential to electrify (with renewable electricity) rigs belonging to other operators west of Shetland.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

10.0 Executive summary

CGAM recognises the importance of collaborative engagement as a powerful means of influencing positive transition.

There are two main forms of collaboration that CGAM undertakes. Direct collaboration is a targeted form of intra-shareholder engagement initiated by us (or other shareholders) after identifying specific issues at an investee company or security issuer. It is one of the escalation techniques covered in Principle 11. It is a highly effective way of engaging around non-systemic issues we identify in our portfolios.

A second form of collaboration, more suited to systemic issues, are indirect collaborative engagements intermediated by third party institutions or industry bodies. In complex areas of systemic risk we recognise that the impact of individual engagement is likely to be limited. It therefore makes sense to pool our influence with larger investor groups via third party institutions. We acknowledge there are many areas in which we can benefit from and leverage the insights of larger and more experienced collaborators who are leaders in the field of systemic risk. CGAM has been increasing its support to and knowledge of a number of these third-party networks and associations as a first step in increasing our indirect collaboration activities.

10.1 Direct collaboration

Collaboration is a valuable escalation tool that can be used very effectively in individual engagements. CGAM has a long history, and considerable expertise in direct collaboration, hence this is the area of principle focus within our collaborative efforts.

Recent case studies of direct collaboration include:

Company	Category	Summary
Ground rents income fund plc	Social / Governance	CGAM has participated in long-running collaborative discussions with a range of shareholders around the sustainability of this fund, considering concerns around cladding safety at some of their buildings, its small scale and its significant discount. After dialogue with fellow shareholders, the manager and directors about the continuation of the company, the board recommended the company commences an orderly wind down.
Phoenix Spree Deutschland plc	Social / Governance	CGAM has participated in long-running collaborative discussion with a range of shareholders, considering the appropriateness of manager remuneration, capital expenditure around apartment refurbishment, property disposals, capital structure of the company and the future of the company.

Company	Category	Summary
Inland Homes plc (Preference share holding)	Governance	CGAM made a small investment in the preference shares of the company but stopped adding to the position after identifying potentially concerning related party transactions. Shortly after these potential conflicts were identified, we were contacted by another preference shareholder who shared the same concerns and was keen to ensure greater disclosure by actively engage with the board and management. We collaborated with this lead shareholder, and other preference shareholders, to jointly engage with the management and board.

10.2 Indirect collaboration

Indirect collaborations are those intermediated and facilitated by a third-party institution e.g. UN PRI. As described in Principle 4 collaboration is often the only tool available when seeking to address issues of systemic importance. Systemic risks, by definition, will defy the attempts by any individual investor to mitigate their effects. Therefore, collaboration to identify and mitigate systemic risk is the only tool available to individual investors.

CGAM has less experience of indirect collaboration, so this is an area that we are looking to build our expertise. We acknowledge there are many areas in which we can benefit from and leverage the insights of larger and more experienced collaborators who are leaders in the field of systemic risk.

Our first steps to greater indirect collaboration have been to increase our support and knowledge of a range of the networks and associations that play a coordinating role in these types of collaborations. We are members or signatories to several industry collaborative partnerships involving the responsible investment community. These partnerships include:

Network / Association	Summary
 Principles for Responsible Investment	PRI is a United Nations supported international network of financial institutions working together to implement aspirational sustainability principles.
	The UN Global compact is a network of businesses that have adopted sustainable and social responsible policies, and report on their implementation.
	The AIC supports and promotes the long-term benefits of investment companies by engaging with members, investors and the wider financial community
	The IA champions UK investment management to support savers, investors and businesses.

10.3 Implementation of TCFD recommendations

As a result of greater engagement with the collaborative networks above we have updated our **Climate Change policy** to include a commitment to implement the Recommendations of the Task Force on Climate-related Financial Disclosures. We will issue our first TCFD report during 2023 to complement our regular reporting schedule.

Signatories, where necessary, escalate stewardship activities to influence issuers.

11.0 Executive summary

CGAM has a long history of active engagement with the third-party investment managers in our portfolio. Frequently our engagements do not achieve all of our desired outcomes. In more serious cases we escalate our concerns with the objective of influencing managers and boards to reconsider our concerns.

There are many escalation tools available to us. Which approach we adopt depends on the nature of our concerns, the type of security held and our capacity to collaborate with other security holders.

There are also circumstances where we choose to exit an investment when we believe our capacity to influence investee companies is insufficient even with escalation.

11.1 Systematic approach to escalation

The table below summarises some of the wide range of activist engagement techniques that we employ, and the frequency with which we employ them. The exact combination of techniques will depend on the scenario.

Activist Engagement Technique	Frequency of Employment
Management engagement	Continuous
Board engagement	Continuous
Shareholder co-ordination	Frequent
Voting against significant resolutions	Frequent
Raising ESG matters in fund reporting	Frequent
Amplification through press engagement	Periodic
Replacing directors to improve governance	Periodic
Publishing open letters	Periodic
Publishing research incorporating ESG views	Periodic
Threatening to requisitioning meetings	Periodic

11.2 Recent escalation summary

2023 has been a busy period for escalating our concerns. The summary of escalation activity in the four months ahead of this report are as follows:

	No of examples in quarter
Board engagements	6
Collaborative intra-shareholder discussions	3
Raising ESG matters in fund reporting	2
Public interventions at AGMs	2
Amplification through press engagement	1
Introducing new director candidates to shareholder group to improve governance	1
Publishing an open letter highlighting ESG issues	1

Recent examples of escalation activities:

Company	Category	Summary
Listed renewable energy Infrastructure funds	Environmental / Governance	Publication of article and open letter calling for the boards of renewable energy infrastructure funds to take the actions necessary to re-establish premium ratings. By restabilising premia these companies will be able to continue their growth and thereby support the decarbonisation of the UK and European electricity supply. CGAM Renewables Open Letter
Aberdeen Diversified Income and Growth plc	Governance	Public intervention at the annual general meeting to escalate our concerns regarding lack of discount policy adherence

Recent intervention:



11.3 Exiting an investment

Despite our desire to hold our investments for the long-term, we also exercise discipline around reducing or selling down entirely our positions where the assumptions underlying our original investment thesis change. These situations include:

- Deterioration of investment and/or ESG thesis;
- Our engagement attempts have been unsuccessful;
- Valuations become too expensive; or
- Our original investment thesis turns out to be incorrect.

Exercising Rights and Responsibilities

Signatories actively exercise their rights and responsibilities.

12.0 Executive summary

CGAM takes its voting responsibilities seriously. The act of voting, and discussions with companies ahead of voting, are the most tangible tools available to exercise influence and participate in shareholder democracy. It is CGAM's policy to use its voting rights to both safeguard the interests of investors and encourage positive transition in relation to environmental, social and governance factors.

We do not rely on proxy voting research from third parties. We consider it central to our investment management obligations to understand our investee companies well enough to come with our own judgement around how to vote. Often that is the very purpose of many of our engagement activities.

We report on our voting activities on a by fund basis quarterly, with a summary in our Responsible Investment reports.

12.1 Voting process

We act as stewards of our clients' assets and so we use our judgement to determine how to vote at shareholder meetings to best protect the interests of our clients while being cognisant of the impact on all stakeholders. Voting decisions are made by the Investment Team with input from the responsible investment committee as required. The voting decision maker is logged on each occasion and the voting records are transparent to all other members of the investment team, responsible investment team and compliance team. Voting decisions are recallable and available for review and audit.

CGAM has access to voting recommendations, to assist in the assessment of resolutions and the identification of contentious issues. Although we may acknowledge proxy advisers' voting recommendations we do not delegate or outsource our voting decisions. CGAM uses a proxy voting service to execute our voting decisions. Voting is conducted through ProxyEdge, a platform provided by Broadridge, and is a system that is integrated with that of the Custodian to ensure that all our votes have been cast and counted correctly.

CGAM's Investment Team will look to discuss with companies any relevant or material issue that could impact our voting on a case-by-case basis. ESG factors are considered in this analysis as well as any additional factors that could impact shareholder interests. We will ask for additional information or an explanation, if necessary, to inform our voting discussions. If we decide to vote against the recommendations of management, we often communicate this decision to the company before the vote along with our explanation for doing so.

12.2 Conflicts of interests

CGAM is majority owned by an Employee Ownership Trust which aligns our interests with those of our clients. As staff share in the long-term profitability of the firm, they are interested in long-term stakeholder relationships and the sustainability of the business. Should conflicts of interest on voting or engagement exist between CGAM and/or a particular client and our wider client base, it is CGAM's policy to act in the best interests of all our clients. Should an individual voter identify a conflict of interest they will escalate to the chief investment officer and recuse themselves from the decision-making process.

Exercising Rights and Responsibilities

12.3 Proxy research

CGAM's experience of proxy voting research, as relates to investment trusts, is of very mixed and frequently low-quality advice is provided. Consequently, CGAM does not rely on proxy voting research, instead we consider it central to our investment management obligations to understand our investee companies well enough to come with our own judgement around how to vote.

12.4 Voting reporting

All voting records are retained and are available to investors on request. We currently published a record of all our voting activity annually and publish voting by fund details and statistics on a quarterly basis. CGAM does not engage in stock lending and therefore has no requirement to recall lent stock to exercise voting rights.

Voting summary	All Funds
Total meetings voted	110
Meetings with at least one vote against	9
Meetings with at least one vote against management recommendations (%)	8%
Total votes cast in quarter	2951

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