



# Capital Gearing Portfolio Fund

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*Responsible Investment Report*

Q3 2023

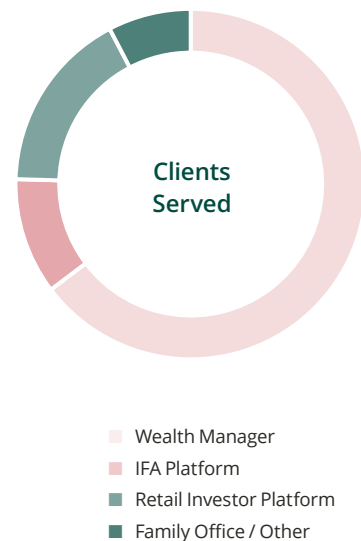
**cgam**

# CG Asset Management

CGAM manages £4bn of 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.

CGAM was founded in 2000 and 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.

For more information:  
[www.cgasset.com](http://www.cgasset.com)

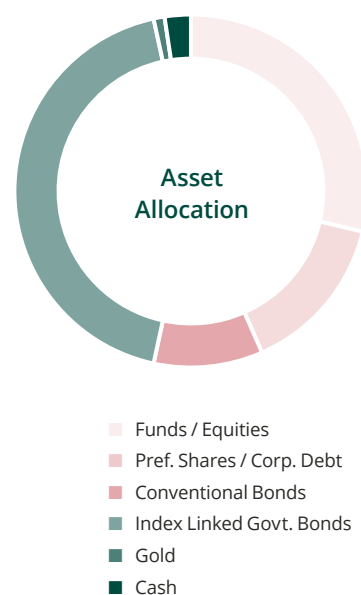


## Capital Gearing Portfolio Fund

The Portfolio Fund seeks to preserve and over time to grow its shareholders' real wealth. It does so by investing into a diverse range of asset classes including government bonds, corporate bonds, preference shares, REITs and investment funds.







The investment strategy emphasises long-only asset allocation as a powerful tool to preserve capital and deliver superior investment performance over the longer term. The fund is designed for investors with a long-term time horizon, a conservative risk appetite and a preference for capital gains over income. The fund is managed without reference to a benchmark.

For more information:  
[www.cgasset.com/fund/capital-gearing-portfolio-fund](http://www.cgasset.com/fund/capital-gearing-portfolio-fund)



If you have any comments on our policies or you have input we should be considering please contact us at [info@cgasset.com](mailto:info@cgasset.com)

# Responsible Investing Approach

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## 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.

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## 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**.

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## 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.

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## 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.

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## 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**.

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## Engagement over disinvestment

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

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## 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.

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## 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.



The principal document guiding CGAM's RI activities is our responsible investment policy. This policy sits alongside a number of other relevant policy documents which collectively govern our internal RI practice. All these documents are publicly available on our website and via the links below.

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

## Policy formation process

Our policy documents are informed by input from a number of different parties. The policies seek to incorporate our institutional principles, client feedback, best practice as defined by industry and regulatory bodies. In addition we take expert third party advice.

## Stakeholder input into policy formation

Stakeholder feedback is a central plank to our policy formation process. We use a variety of different channels to achieve stakeholder input.

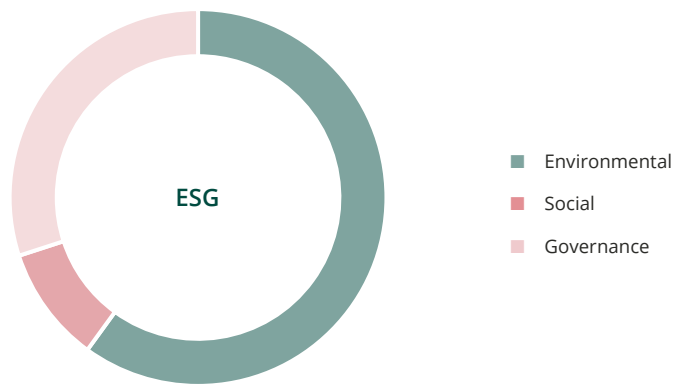
| Feedback type                | Typical client type   |
|------------------------------|---|
| <b>Face to face feedback</b> | Wealth manager, institutional, family offices and charities |
| <b>ESG questionnaires</b>    | Wealth manager, institutional, family offices and charities |
| <b>Investor surveys</b>      | Self-directed private investors                             |



There are a broad range of views relating to responsible investing across our clients base, however there are areas of consensus. A majority of CGAM's institutional client base would like us to be signatories of the PRI and Stewardship code.

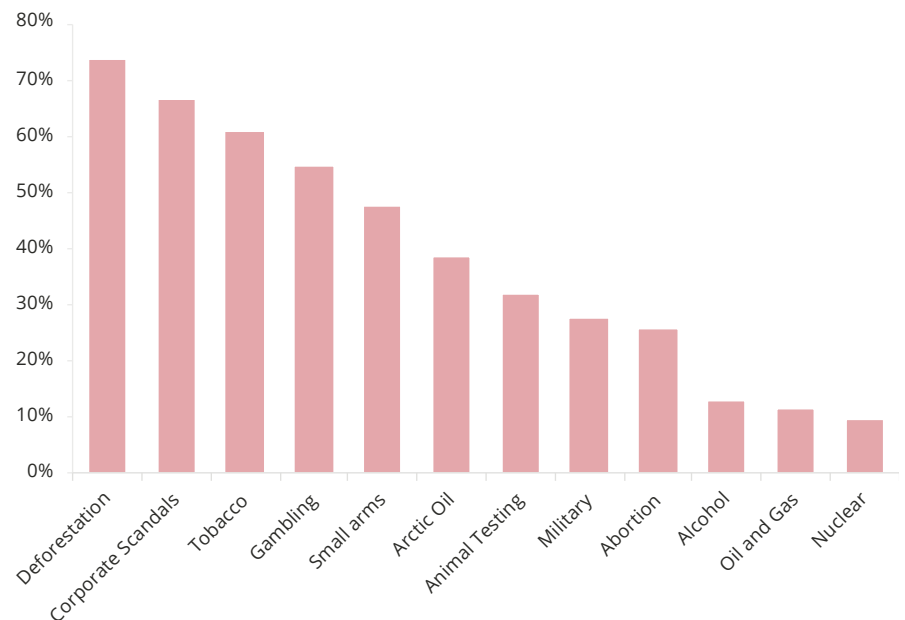
To understand the preferences of our self-directed private clients we primarily draw on investor surveys conducted by the platforms that those shareholders use. Anecdotal feedback from wealth managers suggests that the preferences of their own client base generally aligns with the self-directed private investors, making these broad investor surveys particularly useful.

## 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

# Capabilities



CGAM's capacity to implement our responsible investment policies rests on having sufficient human resource available, appropriately trained and with access to the right operational systems. The body with principal responsibility for ensuring these capabilities are in place, and for the implementation of the responsible investment policy, is the responsible investment committee.

The RI committee is a five members body that meets quarterly. It includes members from all teams within the firm and is chaired by the chief executive.

| 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 & Reporting |

## Training and employee retention

Every member of CGAM staff, regardless of position, has undertaken responsible investment training delivered by the UN PRI academy. The depth of the training is dependent on 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.

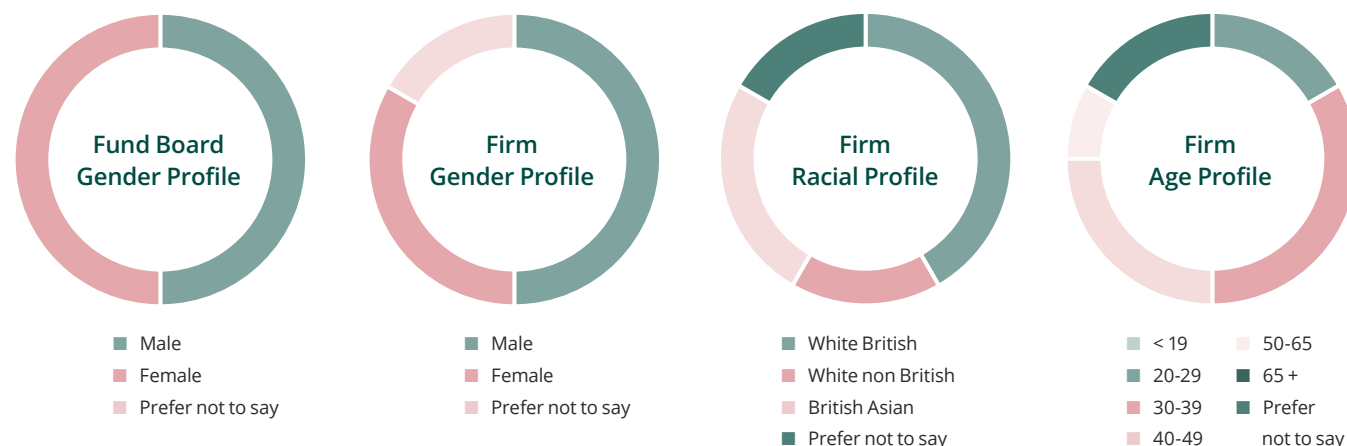
To maximise the value of training it is essential to retain employees and the skills and knowledge they hold. CGAM has exceptionally low staff turnover, with only one leaver in the last five years. This is due to a respectful and supportive culture, reinforced by the universal equity participation via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

CGAM is an accredited Living Wage employer.



## Diversity

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.



# Capabilities



## Recruitment

CGAM has enjoyed the benefit of low staff turnover. The firm is well-resourced to meet the needs of our clients and there are no plans for significant recruitment in the short-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 firm.

There are currently only 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 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.

## Third parties

CGAM works with a variety of third parties to augment our in-house 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.



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

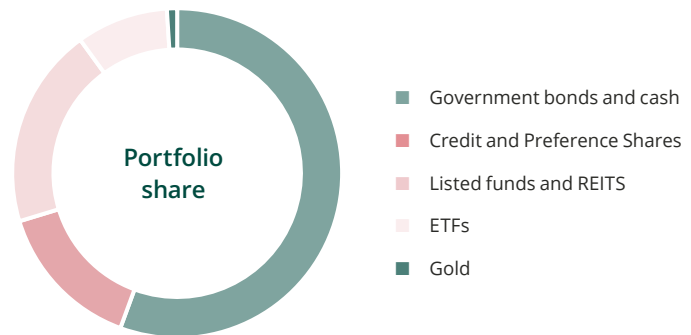
## Our governance

CGAM is majority owned by an 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. Decision making by the EOT is controlled by three trustee directors. These are made up of a non-executive chairman, a senior employee (not the CEO or CFO) and a junior employee. This mix is to ensure that the interests of all employees are represented in the governance of the EOT as well as benefiting from non-executive input. Sitting beneath the EOT is the corporate board and then four board committees.





The Portfolio Fund invests in diverse portfolios which incorporate a wide range of asset classes. Different asset classes lend themselves to different stewardship approaches based on data quality and the potential for CGAM to influence the issuer. Where we have less influence we are more likely to pursue exclusions. In our assessment exclusions are a less effective and productive form of stewardship but it makes no sense to expend significant resources on engaging in areas we are less likely to impact.








## Integration approach by asset class

### Direct Government Securities

A majority of the assets held by the Portfolio Fund are invested in direct holdings of securities issued by governments including bonds, bills and cash. As our capacity to influence governments is extremely limited, our primary approach is to exclude sovereigns that do not maintain the very highest ESG standards.

In order to help assess these criteria we consider indices compiled by a range of NGOs and require sovereigns, at a minimum, to achieve strong rankings in at least four out of five of these criteria. In addition to using third party indices we also overlay our own subjective assessments which typically leads to material additional exclusions.

| 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 |



## Direct Corporate Credit and Preference Shares

Capital Gearing Portfolio Fund holds relatively small quantities of direct credit and preference share holdings issued by corporate issuers. Given our small participation in the market and therefore limited influence, our primary approach is to exclude corporate issuers who are primarily engaged in the following activities:

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

## Listed Closed-Ended Funds, Investment Trust, REITs and Property Companies

CGAM has a long history of investing in the London market for listed closed ended funds and other collective investment companies including REITs. Listed investment companies are fundamentally different to operating companies and typically have the following features:

- they hold a broad portfolio of securities on behalf of their shareholders;
- they employ investment managers, who make the stock selection and proxy voting decisions relating to portfolio securities;
- they have no employees or customers; and
- they have a board of directors to represent shareholder interests and concerns.

From an integration perspective listed funds are effectively external managers. Hence our due diligence focuses on the board and investment manager's commitment to responsible investing as expressed in their responsible investment policy, the quality of RI reporting and their organisational culture.

Given the prominent role that directors play in investment companies there is considerable scope for engagement activities. CGAM frequently undertakes activities that aim to influence boards and ultimately improve governance. The techniques employed vary based on the specific scenario but those listed on the next page.



| Activist Engagement Technique               | Frequency of Employment |
|---|-------------------------|
| Management engagement                       | Continuous              |
| Board engagement                            | Continuous              |
| Shareholder coordination                    | 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 requisition meetings         | Periodic                |

As well as engagement in the sector, 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.

## Exchange Traded Funds (“ETFs”)

Funds advised by CGAM hold relatively small quantities of exchange traded funds. ETFs are listed collective funds which typically track an index and provide low cost, efficient access to a broad portfolio of securities. CGAM does engage directly with our approved panel of ETF providers to encourage improved stewardship standards. However our capacity for effective engagement is limited, therefore we consider exclusions where there are suitable ETFs available. Typically this is via ESG screened ETFs which is a dynamic and growing sector. The programme of identifying and conducting due diligence on these products is ongoing and currently a little more than a third of our ESG exposure is in explicitly ESG screened ETFs. Our non ESG screened ETFs are managed by providers who have active stewardship programmes and provide regular stewardship reporting.

### *Case study:*

#### **iShares MSCI Japan ESG screened ETF**

This ETF is largest equity holding in Capital Gearing Portfolio Fund. The fund tracks the Japanese stock market with the exception of exposure to controversial weapons, tobacco, civilian firearms, fossil fuel extraction, palm oil, arctic oil and gas, UN Global Compact violators and severe controversies. The ETF costs are the same as non ESG screened version of the ETF.

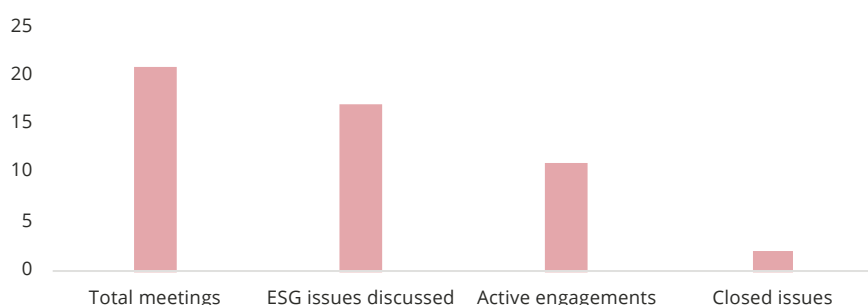


# Engagement

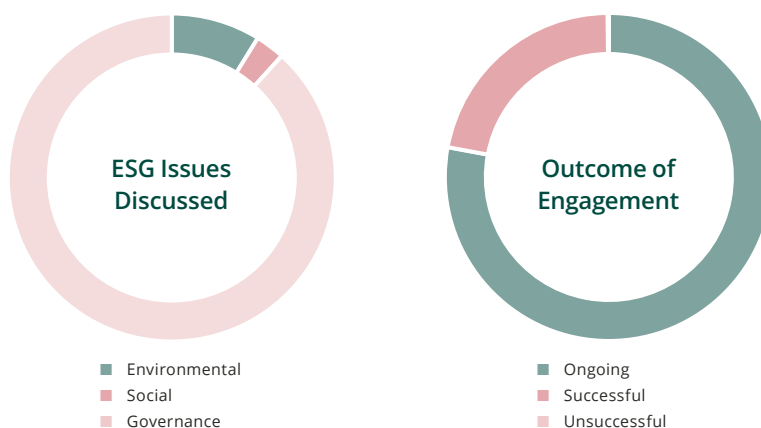
CGAM carried out a significant number of engagements in the quarter relating to securities held by Capital Gearing Portfolio Fund. Every meeting we hold with an investee company is an opportunity to raise ESG related points as part of our ongoing stewardship activities. We track all these interactions as part of our engagement activity but we do not consider every meeting to constitute an Active Engagement. For CGAM an Active Engagement has an ongoing project with a clear objective that could realistically be achieved over a short or medium term time frame and almost certainly includes some form of escalation beyond talking to management.

The following charts summarise the full range of our engagement activity in the quarter.

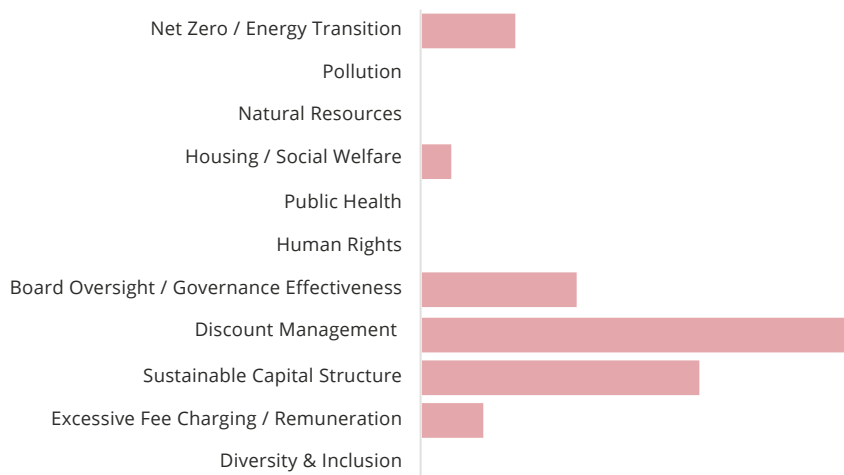
## ESG Interactions Summary



## ESG Issues Discussed



## ESG Areas Raised (Detail)





## Some examples of active engagements from the last quarter include

| Company                                   | Category                            | Summary   |
|---|-------------------------------------|---|
| <b>Digital 9 Infrastructure plc</b>       | Governance                          | Digital 9 Infrastructure plc (DGI9) is a London-listed investment company with a portfolio of assets to facilitate digital communication and data transfer. After DGI9's recent interim results announcement, we became concerned about the ongoing viability of the company's financial position. They also announced that they would be running a shareholder consultation as to the best use of capital going forward. We have engaged with management to understand options facing the company, and have discussed our views on capital allocation with other major shareholders. We have also written formally to the board to convey our recommendations. |
| <b>Global Smaller Companies Trust plc</b> | Governance                          | Global Smaller Companies Trust plc (GSCT) is a London-listed investment company with a published share buyback policy aimed at "keeping the discount at no more than 5% in normal market conditions." Despite this, GSCT shares had been trading at a discount materially wider than 5% over the past two years. We met with the company's management and the chair of the board to reiterate the importance of keeping to the published buyback policy. As the discount was not narrowed, we made a public intervention at the company's AGM to reiterate the importance of adhering to the commitments made to a 5% discount.                                 |
| <b>JK Japan Fund</b>                      | Governance                          | The JK Japan Fund (JK Japan) is an open-ended fund that invests in Japanese equities. We received notice from the manager of JK Japan of intention to put a proposal to shareholders to increase the management fee on the fund via a vote at an Extraordinary General Meeting. We subsequently engaged with the manager of the fund to express our rationale for opposition to the fee increase, culminating in our voting against the EGM proposal. The proposal to increase the fee was passed, and we have subsequently redeemed a material part of our holding in this fund.   |
| <b>BlackRock</b>                          | Environmental / Social / Governance | The fund invests in a range of BlackRock iShares ETFs. As part of a wider investor stewardship initiative, BlackRock has made voting policies available to institutional clients with collective investments to enable them to vote in respect of their shareholdings of the underlying assets. CG Asset Management has met with representatives from BlackRock to express interest in voting in respect of the underlying shareholdings of our funds' holdings in ETFs, however, this stewardship feature was not yet available for iShares ETFs.  |

# Collaboration








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. It is a highly effective way of engaging around non-systemic issues we identify in our portfolios

A secondary 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, so it makes sense to pool our influence with larger investor groups. We acknowledge there are many areas we can benefit from the insights of larger and more experience collaborators in the field of systemic risk.

|                                | No. of examples in quarter |
|--------------------------------|----------------------------|
| <b>Direct collaborations</b>   | 4                          |
| <b>Indirect collaborations</b> | 0                          |

CGAM has been increasing its support to and knowledge of a number of third-party networks and associations as a first step in increasing our indirect collaboration activities.

## We are signatories to or members of:

| Network / Association   | Summary  |
|---|--|
|  | <p>PRI is a United Nations supported international network of financial institutions working together to implement aspirational sustainability principles.</p> |
|  | <p>The UN Global compact is a network of businesses that have adopted sustainable and social responsible policies, and report on their implementation.</p>     |
|  | <p>The AIC supports and promotes the long-term benefits of investment companies by engaging with members, investors and the wider financial community.</p>     |
|  | <p>The IA champions UK investment management to support savers, investors and businesses.</p>  |
|  | <p>Advance is a stewardship initiative where institutional investors work together to take action on human rights and social issues.</p>                       |



CGAM is committed to regular reporting to allow our stakeholders to access timely information and for reasons of transparency. Our RI reporting schedule includes the following publications:

|   |          |
|---|----------|
| <b>Quarterly responsible investment reporting</b> | By fund  |
| <b>Quarterly proxy voting record</b>              | By fund  |
| <b>Annual stewardship code reporting</b>          | Firmwide |
| <b>Annual PRI reporting</b>                       | Firmwide |
| <b>Annual proxy voting record</b>                 | Firmwide |
| <b>Annual TCFD reporting</b>                      | Firmwide |

## Voting

The full quarterly proxy voting record for the Portfolio Fund is available at [www.cgasset.com/governance-and-policies](http://www.cgasset.com/governance-and-policies). The voting summary for Capital Gearing Portfolio Fund for the quarter is:

|   |     |
|---|-----|
| <b>Total meetings voted</b>   | 14  |
| <b>Meetings with at least one vote against</b>                                | 3   |
| <b>Meetings with at least one vote against management recommendations (%)</b> | 21% |
| <b>Total votes cast in quarter</b>  | 178 |

## Co2 metrics

Under our climate change policy CGAM has committed to publishing quarterly emissions data for our firm.

|  |                          |
|--|--------------------------|
| <b>CGAM Scope 1 and 2 emissions quarterly</b>  | 5.24 tCO <sub>2</sub> e  |
| <b>CGAM scope 1 and 2 emissions annualised</b> | 20.94 tCO <sub>2</sub> e |

CGAM co-owns a range of renewable energy projects across the UK and Europe. The power output from these renewable projects, pro-rated for our investment, is many multiples of the power consumed by the company.

# CGAM Team

## Investments & IR

**Peter Spiller**

*Chief Investment  
Officer*



**Chris Clothier**

*Co-Chief Investment  
Officer*



**Alastair Laing**

*Co-Manager*



**Hassan Raza, CFA**

*Investment Manager*



**Emma Moriarty**

*Investment Manager*



**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*





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