cgam

CG Asset Management *Stewardship Report*

For the year ending April 2021

cgam

About CG Asset Management ('CGAM')

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, a model pioneered by the John Lewis Partnership. 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.

CGAM at a glance

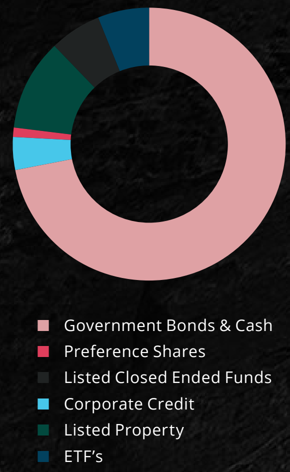
Year of establishment
2000

Majority owner
CGAM Employee Ownership Trust

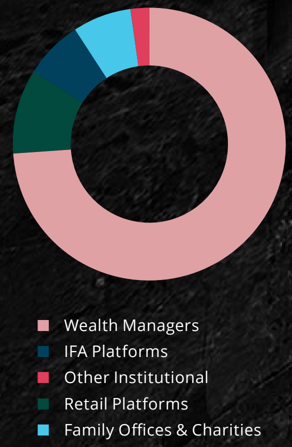
Number of employees
9

Assets under management
£3.6bn

Assets managed



Clients Served



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Key Principles of The Stewardship Code[1]

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[1]Principles set out in the UK Stewardship Codes 2020 as articulated by the Financial Reporting Council

Forward

CG Asset Management was established in 2000. Included within our foundational documents are the three principles that have guided us ever since: the client comes first; don't be greedy; and have fun.

In the year 2000 these principles seemed distinctly old fashioned. Decades of hyperactive financialisation had resulted in an increasingly unrestrained bonus culture within financial institutions which was as divisive as it was joyless. These changes were cheered on by business schools preaching a gospel of short term profit maximisation. Ultimately these trends contributed to the excesses that created the global financial crisis. Society is now demanding a change in corporate behavior and higher standards of stewardship, a trend that we wholeheartedly applaud.

Firm culture is central to maintaining high standards. It is our ambition to have a cohesive team which is aided by our ownership structure. A majority of the equity in the firm will always belong to its employees as it is owned by an Employee Ownership Trust. That structure helps develop a long-term perspective. A long-term perspective means a firm that is in partnership with its employees, its clients and with broader stakeholders. The partnership with our clients is demonstrated by our continued commitment to sharing our growth by reducing fees on our funds and charging less than our competitors.

It should be noted that our third principle, to have fun, does not imply continuous parties. Rather that all employees should work in an environment where their contribution is respected, where they have the opportunity for continuous development and where they feel part of a purposeful endeavor. That describes a culture in which Monday morning is a time to look forward to.

For over 20 years stewardship has been core to our investment strategy.

Part of our purpose is to seek to improve governance which in turn leads to improved environmental and social outcomes. This results in frequent contact with the boards of companies we invest in and not infrequently robust discussions around improving standards. We always prefer to talk outside the headlines as we have found it is generally easier for boards to adopt an idea if it looks like their own.

Where this does not work we have not been afraid to apply additional pressure via co-ordination with other shareholders, using more public interventions and on occasions the full range of legal tools at our disposal.

Historically we have been more focussed on the success of our engagements than communicating our activities to our stakeholders. Our hope is that this document is the first step in improving this short coming.

Peter Spiller
Founder

Our approach to stewardship

1

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.

2

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.**

3

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 3rd party quantitative scoring[2].**

4

Engagement over disinvestment

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

5

Targeted, not scatter-shot

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.

6

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.

7

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.

[2]Gibson, Krueger & Schmidt - ESG Rating Disagreement and Stock Returns (December, 2019). Dimson, Marsh & Staunton - Credit Suisse Global Investment Returns Yearbook (February, 2020)

Strategic prioritisation

CGAM provides discretionary investment advice to third party funds. A majority of the assets held by those funds are securities issues by governments such as bonds, bills and currency.

As well as government securities, there are a minority of assets held in securities issued by corporations, typically collective investment vehicles such as investment trusts, real estate investment trusts or ETFs.

Different asset classes lend themselves to different stewardship approaches based on data quality and the potential for CGAM to effectively engage and influence the issuer. As a small firm it is essential that we focus our resources strategically, targeting our engagement activities where they have most influence.

This means we focus our most intense efforts on those corporate issuers in those market segments where we have a long history of engagement and know many of the participants. For us this means focusing primarily on listed closed ended funds and listed property companies.

Where we don't have 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. These areas include those where we have relatively small holdings (corporate credit) or limited ability influence (government bonds).

	AUM	ESG Data Quality	Potential for Engagement	Exclusions	Engagement	Priority Focus
Gov't Bonds and Cash	72%	High	Low	✕		◎
Corporate Credit	4%	Low	Med	✕	✓	
Preference Shares	1%	Low	Med	✕	✓	
Listed Property	11%	Med	High		✓	◎
Listed closed ended funds	6%	Low	High		✓	◎
ETF's	6%	Med	Low	✕		

Approach by asset class

1. Direct Government Securities

A significant majority of the assets held by funds advised by CGAM 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 high ESG standards.

In order to help assess these criteria we consider indices compiled by a range of NGOs[3] 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.

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

2. Direct Corporate Credit and Preference Shares

Funds advised by CGAM hold 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[4]:

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%

[3]The World Bank – Governance Effectiveness index, Reporters without Boarders – World Press Freedom Index, Freedom House – Global Freedom Score, UN – Human Development Index, Net Zero by 2050 statement.
[4]We do not invest directly in companies with primary activities in these areas, although we cannot always identify immaterial non-core activities. As a result we employ a revenue threshold in certain areas.

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

CGAM has a long history of active engagement in the London market for listed closed ended funds and other collective investment companies including REITs. In this priority area for engagement we seek to achieve positive transition so do not employ systematic exclusions.

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;*
- *external investment managers, rather than executive management teams;*
- *no employees or customers; and*
- *have a board of directors to represent shareholder interests and concerns.*

Given the prominent role that directors play in investment companies CGAM frequently undertakes activities that aim to influence boards and ultimately improve governance. The techniques employed vary based on the specific scenario but include those listed here (see box).

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.

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

4. 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 portfolios 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, we therefore 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.

Examples of integration

Issues addressed: governance, environmental, sovereign bond exclusions

Government bonds are by far the largest single asset class held across the funds advised by CGAM. Our approach to screening bond issuers accepts that we have limited capacity to influence government policies. This reflects the fact we are a small organisation and that we consider the correct forums for policy formation is the internal democratic institutions in each jurisdiction, not lobbying by bond investors. In our view, the most consequential and influential decision a bond investors makes is the decision to invest, or not to invest, in a given issuer.

Our assessment of whether, or not, to invest in an issuer is strongly influenced by the quality of political and social institutions within that jurisdiction. To help us make these decisions we employ an initial quantitative screen that is summarised on page [11]. This approach to screening government bonds precludes direct holdings in a majority of global sovereign issuers.

Most sovereigns that make it through the screening process are developed market issuers. On top of the quantitative approach we apply additional qualitative screens which leads to further exclusions. These assessments are under constant review.

Qualitative screening of government bonds

One of the funds we manage, the Real Return fund invests in inflation linked bonds issued by developed market issuers globally. This investment universe includes France, Italy and Spain all of which have deep inflation linked bond markets and which collectively represent 22% of the index. Even though these jurisdictions pass our quantitative screens we have chosen to exclude them due to our qualitative assessments.

Our concerns largely revolve around the economic and financial governance within these jurisdictions. Through their membership of the Euro, these jurisdictions have ceded monetary sovereignty to the European Central Bank, over which they have significantly reduced direct influence when compared to their domestic Central Banks. In many respects Euro government borrowings should be viewed as denominated in a foreign currency, a situation that carries significantly greater risk than borrowings in a domestic currency. In each case, in our assessment, the governments have shown an insufficient capacity for risk management and poor discipline through bond issuance far in excess of that appropriate to their institutional architecture. In addition we have concerns around government effectiveness and corruption within regions of these jurisdictions.

The decision to exclude these jurisdictions has resulted in an overweight to Germany and Sweden within the universe of European issuers. We consider both these jurisdictions to have higher quality social and political institutions and higher standards of economic and financial governance.

Examples of integration

Issues addressed: social, availability of affordable accommodation

The UK has a housing crisis caused by insufficient new housing construction to accommodate a rapidly growing population. This has resulted in housing costs rising faster than wage inflation over an extended period and a marked increase societal inequality. A gulf has opened up between those who have access to affordable accommodation and those who do not. Amongst thoseparticularly impacted are vulnerable groups, whether families living in unsuitable accommodation, the elderly or those on low incomes.

Residential Secure Income plc

The PRS REIT plc

Residential Secured Income REIT plc ('RESI')

CGAM supported RESI in its IPO in 2017 and remains one of the largest shareholders in the company.

RESI holds a range of residential properties that it either leases or sells to the underlying property occupiers. The three principal types of properties within its portfolio are shared ownership accommodation, retirement flats and homeless accommodation.

Shared ownership accommodation involves RESI purchasing newly constructed homes and then selling a share of that residential property to homebuyers and renting to them the balance of the house. The purpose is to assist first time house buyers to take ownership of properties they would otherwise not be able to fund.

The trust is able to secure grant funding from the government which it in turn uses to ensure that the rental element charged to tenants are affordable.

The retirement flats are let to elderly residents on affordable rents. Tenants have lifetime security of occupation through assured tenancy agreements.

The company also owns a portfolio of 289 apartments providing accommodation to the homeless and those at risk of homelessness. These apartments are leased to local authorities to assist them in meeting their statutory duties to house those at risk of homelessness.

PRS REIT plc ('PRSR')

PRSR is the UK's first real estate investment trust to focus on new built family homes for the private rental market. It was established in 2017 with direct support from and investment by the UK government via the Homes and Communities Agency (HCA now Homes England). CGAM invested alongside the government at the IPO and has supported the company in an additional fundraising since.

PRSR has constructed (or is contracted to complete) in excess of 5,000 high quality, professionally managed and affordable rental homes designed for families.

Housing sites are selected so that they are close to local amenities, transport links and primary schooling. The properties are managed and fitted out to a high standard and efforts are made to foster a strong community spirit.

This is a significantly underserved market and frequently allows families to occupy far superior housing than would otherwise be available to them.

Examples of integration

Issues addressed: environmental, climate change, financing energy transition and decarbonisation of UK electricity system

In 2019 the UK government became the first of any major economy to pledge net zero emissions by 2050. Achieving this undertaking will require far reaching changes in the across the economy. According to the Climate Change Committee a key change required is the "extensive electrification, particularly of transport and heating, supported by a major expansion of renewable and other low-carbon power generation".

Greencoat UK Wind plc ('UKW')

UKW is a leading renewable infrastructure fund, investing in UK onshore and offshore wind farms. It is a constituent member of the FTSE 250 having grown materially since its initial listing in 2013. CGAM supported UKW at its IPO and has supported it in subsequent fundraisings as the company has grown.

UKW is an important participant in the UK's effort to decarbonise its electricity system by generating in excess of 3,000 GWh of zero carbon electricity annually. UKW continues to grow its generation capacity both by acquiring existing projects and by financing the development of new wind farms.

UKW has now achieved sufficient scale that it is a reliable partner to utilities in financing and risk sharing in the development of the largest offshore wind projects being developed globally. This process of scaling up offshore wind generation capacity is a strategic priority for the UK in its path towards net zero by 2050.

Gore Street Energy Storage Fund plc ('GSF')

GSF is the UK's first listed energy storage fund, investing in a diversified portfolio of utility scale energy storage projects. CGAM has supported the company's growth via participation in primary fund raises.

Renewable energy sources are intermittent as their output is based on weather patterns that fluctuate on a short term and seasonal basis. As renewable energy makes up an ever greater share of UK power production, combined with the retirement of fossil fuel and nuclear base load generation capacity, the electricity supply infrastructure (the 'grid') comes under greater strain in balancing the supply and demand for power.

Battery storage is one tool to maintain the stability of the grid as the supply of intermittent energy sources increase. Lithium-ion batteries store excess energy in time of power over production and this is released into the grid when capacity is constrained.

Examples of integration

Issues addressed: environmental, social, provision of primary capital to high impact small and medium sized companies.

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.

Selected examples of high impact companies recently supported in primary fundraisings by CGAM

High impact environment focus	High impact environment or social focus
Aquila European Renewables plc	Triple Point Social Housing plc
Bluefield Solar Income plc	Civitas Social Housing plc
Downing Renewables & Infrastructure plc	Home Reit plc
Foresight Solar plc	Next Energy Solar Fund Ltd
Greencoat Renewables plc	Gresham House Energy Storage fund
Gore Street Energy Storage Fund	Target Healthcare Reit plc
JLEN Environmental Assets plc	Impact Healthcare Reit plc
Renewable Infrastructure group plc	GCP Infrastructure plc
SDCL Energy Efficiency Trust plc	International Public Partnerships plc
Greencoat UK Wind plc	PRS Reit plc
Triple Point Energy Efficiency Infrastructure plc	BBGI Global Infrastructure plc

> “CGAM has been important supporters of SDCL Energy Efficiency Trust from helping the company to IPO and participating in every fund raise since”

JONATHAN MAXWELL / CEO SDCL

Examples of active stewardship

Issues addressed: governance, conflict of interests, unstainable business model, promoting the effectiveness of investment trust market

Gabelli Value Plus + ('GVP') is an investment trust focusing on North American value equities. It listed on the London Stock exchange in 2015 but quickly ran into issues delivering disappointing returns. This was in part due to value equities generally experiencing a poor period of performance but also because GVP substantially underperformed similar funds.

Over time GVP's shareholders became increasingly frustrated with the weak performance and the associated issues of the small size of the company which resulted in high costs and poor liquidity of the shares in the secondary market.

The performance issues were exacerbated significantly by an increasingly large discount between GVPs share price and its net asset value per share[5]. By the spring 2020 this discount had grown to >20% as frustrated shareholders accepted very large discounts to try to exit a dysfunctional investment. The largest independent shareholder, Investec Wealth and Investment, had written an open letter expressing their frustration and calling for a discontinuation of GVP.

Over spring and summer 2020 CGAM built up a stake in GVP and in July wrote an open letter to shareholders recommending to them to vote against continuation: **www.gabelli.co.uk/docs/pdfs/GVP_cgam.pdf**.

Independent shareholders duly voted against continuation which should have been the end of the matter. However the discontinuation of GVP was blocked by the investment manager and an associated party who collectively held in excess of 25% of the shares and voted against a procedural special resolution to place the company in liquidation.

This left the Company in limbo, with the board and meaningfully all independent shareholders wishing it to discontinue but the manager (and associated parties) using their procedural veto to frustrate the process; a brazen conflict of interest putting manager interests ahead of shareholders and other stakeholders.

Rather than selling our shares, CGAM increased its holding in GVP building to c.10% of the Company. We then engaged closely with the board to explore routes to achieve the expressed desire of independent shareholders; the return of capital at NAV and liquidation of company. Based on strong shareholder support the board was ultimately able to repeat the liquidation vote and was successful at the second attempt. GVP has now delisted and returned capital to shareholders at NAV. CGAM's active role in this saga helped to ensure standards of governance were upheld in the Investment Companies sector and also proved a profitable investment for our clients.

[5] See page 22 which covers discounts to NAV in more detail

Examples of active stewardship

Issues: governance, remuneration, poor disclosure, unsustainable business model

KKV Secured Loan Fund ('KKVL') is a diversified equipment leasing and asset finance investment company listed on the London Stock Exchange in 2014. CGAM primarily built its position supporting a primary fundraise in 2016. Relatively shortly after our investment KKVL started to encounter difficulties which first became apparent in relation to a loan to a solar panel manufacturer in 2017. Over the following years its prospects worsened and the business model was fatally compromised by the Covid crisis in 2020 when a number of underlying borrowers went into default.

We had been engaging with the board directly since 2018 emphasising our concerns over the performance of the investment manager and the lack of disclosure by KKVL. In 2019 after modest progress had been achieved made we started co-ordinating with other shareholders in our communications with the board, and requested they conduct a full strategic review to consider the options for the company.

In April 2020 the board announced the outcome of the strategic review which included the transfer of the investment management arrangements to a new party that we thought was unsuitable as a long term replacement investment manager. Furthermore the proposed new investment management agreement included a number of onerous terms that we thought were against shareholders' interest.

At this point we started a wider shareholder co-ordination process and wrote collectively to the board outlining our specific concerns. In addition we voted for the company to go into managed wind down, going against a board recommendation that it should continue. In the initial continuation vote shareholders approved continuation however subsequent events proved that KKVL did not have a viable future and the board proposed a second continuation vote with a recommendation that it go into managed wind down.

Once KKVL went into managed wind down it was essential that the board skill set was augmented to include directors with experience in overseeing a managed wind down of a complex portfolio. Initially we proposed a new director candidate to the KKVL board and investor group. Subsequently we introduced a replacement chairman candidate. These new directors were appointed and have played a central role in overseeing the wind down of KKVL and the return of capital in a way that treats all stake holders fairly, including the borrowers from the company and employees of the investment manager.

KKVL is an example of an investment that underperformed our original thesis. It is an example of a situation in which we believe responsible investors need to engage and work with the board to achieve an equitable outcome for all stakeholders, rather than simply selling their shares.

Example of governance advocacy

Issue addressed: governance, protecting minority shareholder interests, managing conflicts of interest

CGAM has been a long standing investor in and advocate of investment trusts. The listed closed ended structure, when properly managed, is a highly efficient way for retail or institutional investors to access a diversified portfolio. Investment trusts differ in a number of important ways from open-ended funds, one of which is the prominent role for the board of directors. This should confer significant governance advantage, however frequently boards fail to take clear sighted decisions in the interests of their shareholders.

One obvious manifestation of this is the frequency with which the share price of an investment trust trades at a discount to its net asset value per share ('NAV').

For an investment trust with a liquid underlying portfolio there is no reason that this should occur, as a superior approach called the Zero Discount Policy ('ZDP') was pioneered by Personal Assets Trust plc in the 1990's.

Investment managers are frequently resistant to investment trusts they manage adopting ZDPs as they fear it could shrink the size of the Company and cause a reduction in fee income they receive. Instead they prefer to force minority shareholders to sell their shares at a discount to NAV. Good governance dictates that investment trusts boards should put the interests of their shareholders ahead of those of the investment manager. In our view too many boards fail to do so.

We are strong advocates of the ZDP, which robustly manages this conflict of interest and importantly allows successful investment trusts to grow as well as unsuccessful ones to shrink. We advocate this model when speaking to boards of appropriate funds, to the association of investment companies or writing to our clients. Where possible we seek to use the press to amplify our message **www.whatinvestment.co.uk/governance-around-investment-trusts-2618168/**.

For more detail on ZDPs please see the pop out box on page 22

> *"ESG is the dominant topic amongst investors currently. With environmental and social aspects particularly widely discussed. Governance has received less emphasis; yet it is vital for the long-term interests of investors and for wider society."*

PETER SPILLER / WHAT INVESTMENTS, JULY 2020

What is a Zero Discount Policy?

The shareholders of an investment trust own the 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[7] have adopted it.

> **"I am pleased to report that the discount control policy has proved functionally robust and continues to protect and serve shareholders well in providing good liquidity, enabling the shares to trade consistently close to NAV, even in the most volatile market conditions"**
>
> **JEAN MATTERSON / CHAIRMAN OF CAPITAL GEARING TRUST, MAY 2021**

[7] CGAM is the investment manager to Capital Gearing Trust plc

Examples of advocacy

Issues addressed: Environmental, social, governance, integrity of the financial system

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 very 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 by definition places it outside the reach of proper governance oversight or regulation. This means solving the problems identified are all but impossible.

We publicly released an extensive research paper on bitcoin seeking to raise the profile of these issues and others in the public discourse around crypto currency: **www.cgasset.com/wp-content/uploads/2021/09/We-need-to-talk-about-Bitcoin.pdf**

Beyond communicating our views to our clients we also sought to escalate the message through our press relations efforts. This included writing about it for ESG Clarity: **www.esgclarity.com/we-need-to-talk-about-bitcoins-real-world-impact/** and raising the issue during interviews, including with Interactive Investor: **www.ii.co.uk/analysis-commentary/peter-spiller-richard-hunter-interview-ii515542**.

> “It is surprising to see Bitcoin gaining acceptance among institutional investors. It is no exaggeration to say that the cryptocurrency is antithetical to each of the three principles – Environmental, Social and Governance – the make up that ESG acronym”
>
> CHRIS CLOTHIER / ESG CLARITY, MARCH 2021

Examples of stewardship

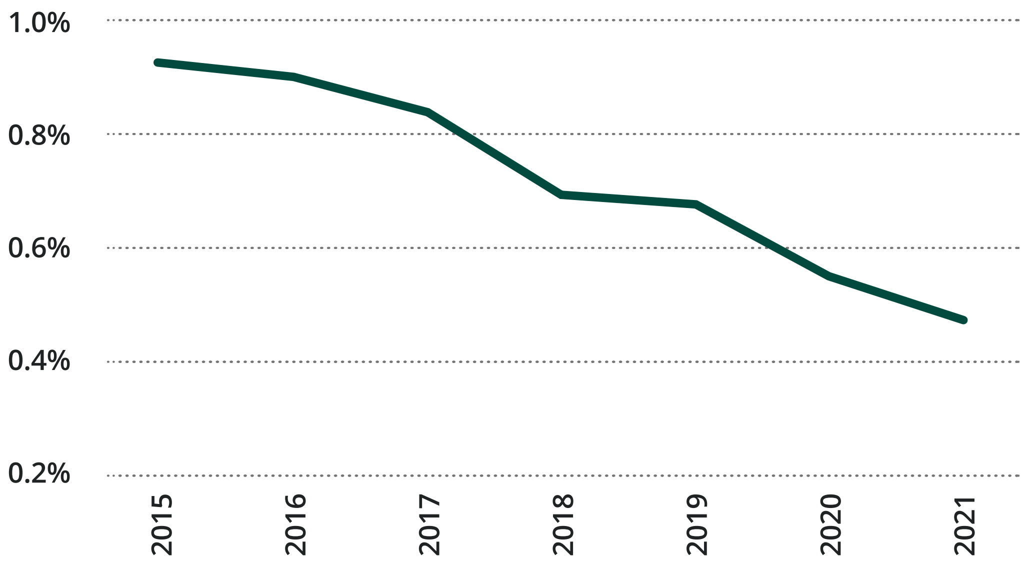
Issues addressed: governance, fiduciary duty to clients, value for money, transparency

At the very heart of investment management lies an inherent conflict of interest in the form of management fees. It is staggering how few investment managers acknowledge this. One of the primary objectives of any investor is to make a financial return on their savings. By charging management fees an investment manager directly and proportionately reduces those financial returns. Research has shown the compounded impact of investment management fees can have a huge impact on the long run financial returns an investor achieves[8].

Whilst there is no way of completely avoiding this conflict, it places a significant responsibility on the investment manager to manage costs carefully, with the objective of charging the lowest fee consistent with offering a high quality service.

At CGAM we seek to achieve this by ensuring we 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 of our funds, including repeatedly lowering fees on funds that are hard closed to new investors.

CGAM weighted average management fee



[8]*How Fees and Expenses Affect Your Investment Portfolio, SEC Office Of Investor Education and Advocacy*

Example of responding to our client feedback

Issues addressed: stakeholder engagement, incorporating client feedback

There has been an explosion of interest in and engagement around ESG related matters. We have noticed an increase in the demands for enhanced information placed on us as the whole industry becomes more transparent and structured in the way it communicates around these matters. We support this trend but also have some concerns that in a desire to standardise something as complex as ESG considerations that a lot can get lost. For example we are regularly asked by clients that hold our government bond funds to fill out ESG questionnaires that could only make sense for an equity portfolio. In these examples pursuing a standardised approach would obstruct the understanding of the issues at hand.

Our most productive conversations are always with those clients who are prepared to take sufficient time to understand our specific investment strategy and then raise relevant and specific questions in that context. These highly tailored engagements are very different to the standardised and decontextualized processes that based on quantitative scoring or questionnaires.

A good recent example of this was due diligence conduct on us by EQ Investors[9]. Their Responsible Investing team held multiple meetings with us with us over a period of months, as well as requesting specific and relevant information to inform each meeting.

This interaction was extremely helpful to us, if a little uncomfortable at times. It helped us identify areas for improvement, a process that is easier in the context of an informed dialogue with a 3rd party who is willing to challenge and go into detail.

The EQ Investors' team suggested we consider using ESG filtered ETFs to more closely align that part of the portfolio construction with the exclusions we apply to our direct investing in corporate securities. These comments resulted in our launching a programme of due diligence on ESG ETFs and ultimately a large scale redeployment of assets into these structures.

We continue to research this area and expect more developments in the future.

We would like to thank EQ Investors for the extremely effective way in which they engaged with us.

[9]This case study should not be considered an endorsement of our funds by EQ Investors.

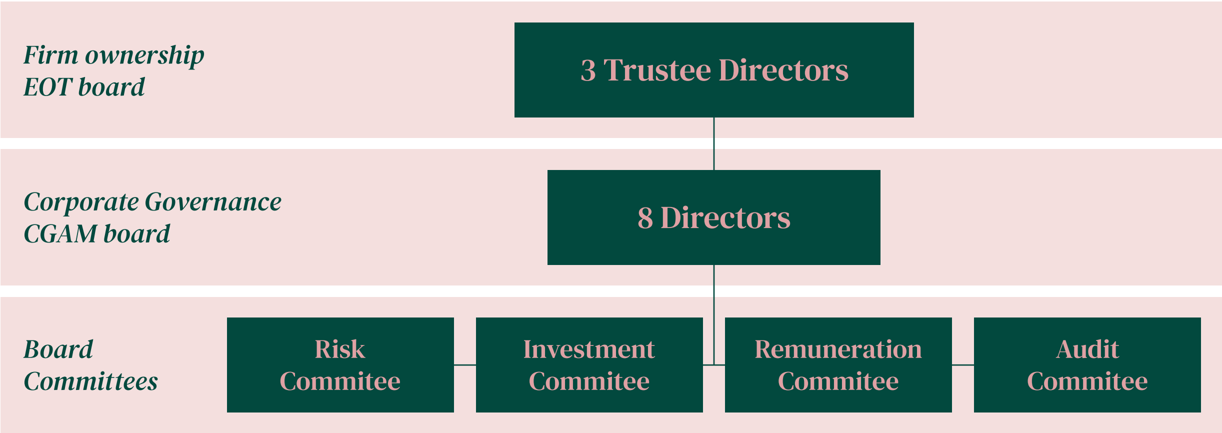
Our own governance structures

CGAM is majority owned by an Employee Ownership Trust ('EOT'), a model pioneered by the John Lewis Partnership. Research confirms that employee owned businesses tend to have a longer term focus, greater investment in human capital and wider employee participation in governance[10]. 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. 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 goverance 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 firm is keen to involve as many employees as possible in firm governance to improve transparency and accountability. Other than the most recent joiners, every employee is encouraged to participate in at least one governance structure. More junior members are invited to take on secretarial roles to learn how the governance process works. Typically staff members progress from secretarial roles to full participation after a period of time.



[10] www.gov.uk/government/publications/employee-ownership-benefits-and-consequences

Our voting record at a glance

Total meetings voted	**81**
Meetings with at least one vote against management recommendations (number)	**10**
Meetings with at least one vote against management recommendations (%)	**12%**
Total votes cast across all client funds in the year	**985**

We take our voting responsibilities seriously. The act of voting, and discussions with companies ahead of voting, are the most tangible tools we have to exercise our influence and to participate fully in shareholder democracy.

We do not rely on proxy voting research or any other third party research when coming to our decision.

We consider it central to our investment management obligations that we understand our investee companies well enough to come to our own judgements around how to vote.

A full voting record is available here: **www.cgasset.com/wp-content/uploads/2021/09/How-We-Voted-in-2020.pdf**

Our priorities for April 2022

- Submit application as signatory of the UK Stewardship Code
- Work with the UN, CGAM staff and collaborative partners to ensure CGAM completes its first PRI reporting obligations in 2022 and thus maintains its signatory status
- Improve the recording of CGAM's stewardship activities to support effective reporting
- Develop the materials to effectively communicate our stewardship and responsible investment activities to our clients and other stakeholders

cgam

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