

# Gravis Capital Management Limited (“Gravis”)

## Annual UK Stewardship Code report 2023

### About Gravis

Gravis is appointed as investment manager or investment adviser to two closed ended funds traded on the main market of the London Stock Exchange, *GCP Infrastructure Investments Limited* and *GCP Asset Backed Income Fund Limited*. Their shareholders comprise a broad range of investors including pension funds, local authorities, wealth managers, institutions and retail investors. Each of the funds has its own board of non-executive directors who are wholly independent of Gravis.

Through its subsidiary, Gravis Advisory Ltd, Gravis is investment adviser to four open ended funds, *VT Gravis UK Infrastructure Income Fund*, *VT Gravis Clean Energy Income Fund*, *VT Gravis UK Listed Property (PAIF) Fund* and *VT Gravis Digital Infrastructure Income Fund*. The open ended funds are managed by Valu-Trac Investment Management Limited.

Gravis specialises in the sourcing and management of assets with long term, predictable income streams and has in depth expertise in the infrastructure, debt and real estate sectors.

The closed ended and open ended funds noted above are hereafter collectively referred to as “our Funds”, “the Fund(s)” or “Fund”.

### The UK Stewardship Code

Gravis adopts the definition of stewardship according to The UK Stewardship Code 2020:

*“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”.*

Our approach to stewardship and engagement is based on the Principles of the UK Stewardship Code 2020 and is in line with our current philosophy on responsible investing.

### Principles for Asset Owners and Asset Managers: purpose and governance

#### Principle 1

***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***

At Gravis we believe in a long-term approach, investing in assets that offer a human dimension and that will be needed for many years to come, such as hospitals, schools, student accommodation, energy generation and other social and economic infrastructure. Our investments generally benefit from dependable cashflows and generate long term predictable income. When investing in infrastructure directly our investments are predominantly underpinned by obligations of UK central and local government.

We focus on investments in the UK but have a growing interest in the developed markets around the world.

Our Funds seek to deliver dependable and predictable income for investors. This means we invest for the long-term. This approach enables us to engage with investee companies, borrowers and property developers and operators on matters relating to responsible investment and gives us the opportunity to seek to drive change where appropriate.

## Principle 2

### *Signatories' governance, resources and incentives support stewardship*

We have a clearly defined governance structure at Gravis with detailed processes covering investment management and portfolio (asset and loan) management.

In addition to the senior management team, Gravis has a team of professionals with in-depth experience in the investment asset classes.

The investment management team is responsible for:

- sourcing and screening investments;
- performing due diligence and managing advisers;
- sourcing financing and borrowings; and
- investment management and hold/exit analysis.

The portfolio management team perform the loan monitoring and operational functions for our Funds. The team's primary responsibility is to monitor the loan profile and cash flows from the underlying investments, as well as the information provision from the underlying borrowers. They work closely with the investment management team to ensure the borrower relationships are continued and the investment rationale and drivers of performance are understood.

Responsible investment and continual monitoring of investments is intrinsic to the design of our processes thus ensuring that effective stewardship is an integral part of how we operate.

The Investment Advisers of the open ended fund work in conjunction with Valu-Trac Investment Management Limited, the investment manager, to ensure process is followed.

## Principle 3

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

We take all reasonable steps to avoid conflicts of interest and have a formal conflicts of interest policy in place. When they cannot be avoided, we manage and monitor and, where applicable, disclose, those conflicts of interest in writing, in order to prevent them from adversely affecting the interests of the funds and their investors and to ensure they are fairly treated.

Gravis has identified the following as the type of conflicts that could arise:

- **A potential investment opportunity may be suitable for more than one of our Funds.** Gravis operates a fair allocation policy which involves the following considerations:
  - contractual obligations;
  - target return profile for each Fund;
  - core focus of each Fund;
  - availability of cash for investment; and
  - where appropriate, the potential to apportion an investment opportunity between more than one Fund.
- **The shareholders/directors of Gravis may have an economic interest in a potential investment transaction.** Such an investment would be considered a "conflicted asset" and details of the conflict will be included in the investment proposal. Where Gravis has discretion to make investments on behalf of the Fund, such "conflicted asset" investments are additionally subject to approval of the independent board of each Fund. Where Gravis does not have discretion, the independent board of the Fund approves all investments as a matter of course. Details of conflicts are disclosed as necessary in publicly available documents (accounts and/or prospectus as appropriate).

- **Two different Funds may co-invest in the same investment.** Where Gravis has discretion to make investments on behalf of the Fund, any co-investment proposal is additionally subject to approval of the independent board of the Fund. As above, where Gravis does not have discretion, the independent board of the Fund approve all investments as a matter of course. Separate teams within Gravis would be established to advise the respective independent boards of the Funds.
- **A fund advised by Gravis or its subsidiary may invest in another Gravis fund.** The open-ended funds advised by Gravis Advisory Ltd can invest in the closed-ended funds. The Gravis Advisory team who advise the manager of the open-ended funds is separate from those who manage the closed-ended funds and an effective ethical wall is maintained between the two companies.

#### Principle 4

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

As AIFM to the closed-ended funds, Gravis is required to operate a risk management framework that enables the identification, monitoring and management of the risks to which it and the funds under its management are exposed. Gravis' permanent risk management function has a role alongside the boards of the closed-ended Funds in shaping the risk policy as well as responsibility for risk monitoring and risk measuring in order to ensure that the risk level complies on an ongoing basis with the risk profile.

#### Principle 5

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

Gravis obtains external assurance from an independent third party in respect of its fund management services on an annual basis. This takes the form of an ISAE3402 controls report. It is also subject to Group internal audit.

Internal review of the investment process and associated controls is included in the risk-based compliance monitoring programme which is undertaken on a quarterly basis by the compliance officer.

Where exceptions are noted, policies and/or processes are modified as necessary thereby ensuring continuous improvement.

#### Investment approach

#### Principle 6

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

Gravis reports formally to the independent boards of the closed-ended funds on a quarterly basis. The reports cover the following:

- Market review;
- Portfolio update;
- Operational review;
- ESG matters
- Financial performance;
- Corporate matters; and
- Compliance and risk management update

Content of the quarterly reports continually evolves based on review and discussion at quarterly fund board meetings.

Investor communications include:

- Fund factsheets published quarterly;
- Results presentations, which consider the portfolios, investment strategy and financial update;
- Annual reports and interim reports; and
- Updates via a regulatory news service (RNS)

Additionally, Gravis publishes a Responsible Investment report for investors annually which outlines our progress throughout the year with regards to our sustainability aims and sets out our goals for the year ahead.

Investors in the open ended Funds receive monthly or quarterly factsheets. The presentations for all Funds are available via our website whilst fund level due diligence questionnaires and full holdings are available upon request. Having implemented a Voting and Engagement Policy for the open ended Funds, we report on our Voting & Engagement activity annually.

## Principle 7

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

Gravis has implemented a Responsible Investment policy. The Responsible Investment process links directly to our core investment processes. The extent to which ESG is embedded in the investment process differs per Fund, commensurate with the type of investments the Fund makes, the type of control and the overall objective of the Fund.

We positively screen for investments that promote sustainability or benefit society, including but not limited to, the areas of climate change mitigation and adaptation, energy transition, critical infrastructure, affordable living, social housing, education and healthcare. For example, a substantial proportion of Gravis' assets under management are renewable energy assets.

Because of our investment focus, it is unlikely that Gravis would be exposed to controversial activities that are usually excluded by the investor community but we seek to exclude investments which focus on non-medical animal testing, armaments, cluster munitions and landmines, alcohol, pornography, tobacco, coal production and power, nuclear fuel production. Investments with ongoing or persistent involvement in human rights abuses are avoided altogether.

Prior to a new investment being approved, the investment teams assess the potential investment against key identified ESG criteria. ESG checklists typically cover the counterparty's (whether that be management teams/borrowers/asset developers and operators/equity owners of investee projects) commitment and capability to effectively identify, monitor and manage potential ESG-related risks and opportunities and, to the extent applicable, the availability of relevant policies and procedures, alignment with industry or investment specific standards and ratings, and compliance to relevant ESG-related regulation and legislation.

A positive outcome of our ESG due diligence may increase our enthusiasm for investment. Conversely, where we identify issues this may weigh against a potential investment, causing us to seek a greater risk premium, hold a smaller position or not invest at all.

When investing in listed companies we ensure adherence with the firm level Responsible Investment policy. In many cases the open ended Funds are managed in line with more stringent bespoke Responsible Investment Statements. Where this is true, we engage with a specialist third party to conduct screening on all holdings and potential holdings to ensure they are aligned with the Responsible Investment Statement. This is overseen by Valu-Trac Investment Management Limited as investment manager to the Funds.

## Principle 8

### ***Signatories monitor and hold to account managers and/or service providers***

Gravis engages in quarterly service calls with the administrators of the closed-ended funds.

The independent boards of the closed-ended funds conduct annual service provider reviews. Further, they are required under the Listing Rules of the FCA to annually report on the performance of Gravis as investment adviser/manager.

Gravis Advisory Ltd undertakes monthly reviews with the ACD of the four open-ended funds. These reviews focus on costs, charges and documentation (including prospectuses, KIIDS, factsheets and presentations). The ACD in turn monitors all execution including price of transactions and fees paid, liquidity of underlying holdings and performance. In the event that any issues arise, these are addressed in the first instance by the ACD with the relevant counterparty.

## Engagement

## Principle 9

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

Gravis is closely engaged with borrowers on an ongoing basis. We value the relationships with borrowers, ensuring time is spent building and maintaining these relationships. By engaging with borrowers and understanding their needs we build long lasting relationships beneficial to all parties. Borrower contact enables direct feedback and informs strategic decision making.

Updates on problem or watchlist loans are included in the quarterly reporting to the independent Fund boards.

Gravis Advisory Ltd believes engagement is essential to achieving the best outcome for investors. Engagement activity is prioritised based on the materiality of the issue and the investment exposure to the company. We seek to engage with the companies in which we invest to understand and provide input into the key areas we see having a material impact on long-term shareholder value creation. For example, we seek to engage with companies to: influence corporate practice (or identify the need to influence) on ESG issues, including encouraging enhanced ESG disclosure; monitor developments in ESG practices, and progress against any ESG issues we have identified; assess any deviations from our investment these, ensuring each company continues to comply with any ESG considerations that informed the initial investment process; and enhance the analysis of an entity's risk and opportunities, encouraging resilience over time.

Gravis Advisory Ltd will engage with companies in a constructive way, encouraging long-term consistent dialogue rather than single one-off conversations, aiming to enhance long-term value for our investors through engagement. The form of engagement will be decided upon on a case-by-case basis, however it is likely engagement will form part of a broader investment opportunities conversation with company management.

## Principle 10

### ***Signatories, where necessary, participate in collaborative engagement to influence issuers***

Gravis has been a signatory to the Principles for Responsible Investment ("PRI") since 2018 and is committed to adopting the principles set out therein.

Gravis also aims to operate within the principles set out in the UN Global Compact with reference to human rights, labour, environment and anti-corruption.

Gravis Advisory Ltd recognises that in some cases collaborative engagement activity by shareholders may be more effective and beneficial than acting alone. As such, there may be some occasions in which we will

work with other significant shareholders with whom we share a similar perspective, to encourage improvements.

## Principle 11

### *Signatories, where necessary, escalate stewardship activities to influence issuers*

All matters that need to be brought to the attention of the independent boards of the closed-ended funds are included as part of the quarterly reporting or are subject to a separate discussion as necessary.

With respect to Gravis Advisory Ltd, following initial engagement with a company, if we are dissatisfied with a company's response, we may escalate from discussions during a meeting to written engagement with the company's board. We additionally see voting as a means of escalation. If our concerns remain following escalation, we may look to divest our holding.

## Exercising rights and responsibilities

## Principle 12

### *Signatories actively exercise their rights and responsibilities*

For Gravis Advisory Ltd, voting forms an important part of our investment strategy and we believe that voting and engagement practices are interlinked, with engagement being the first step to achieve change, and voting being a means of escalation. Our primary aim with all voting decisions is in the long-term interests of our clients, this includes ensuring fair and honest corporate governance and the adoption of socially responsible practices. We aim to vote on all holdings at all meetings. We do not allow stock lending.

Voting is systematic, using research provided by ISS in line with their Sustainability Proxy Voting Guidelines. Although generally we will vote in line with the ISS Sustainability Policy, we retain the right to assess all voting decisions on a case-by-case basis. Where our view of best practice for an individual company diverges from that of ISS we will vote in line with our views. The justification for this will be noted internally.

We aim to be supportive of the Boards and management of the companies in which we invest however, we will not always support management's decisions. In these instances, we may vote against the company or choose to abstain. If ISS intend to recommend Gravis Advisory Ltd votes against company management, they will seek to inform management in advance. ISS will typically aim to engage with company management in advance to explain their reasons behind this decision and work to find potential ways to avoid this.

Voting in respect of holdings in the four open-ended funds is undertaken by the investment manager, Valu-Trac Investment Management, following consultation with the Fund Adviser, Gravis Advisory Ltd, which will, in turn, utilise the research and recommendations of ISS to inform their voting recommendation. Valu-Trac vote on behalf of the funds, via a system called ProxyExchange, on which all votes are logged.