

# Gravis Capital Management Limited (“Gravis”)

## UK Annual Stewardship Code Report

### About Gravis

Gravis is appointed as investment manager or investment adviser to three closed-ended funds traded on the main market of the London Stock Exchange, *GCP Infrastructure Investments Ltd*, *GCP Asset Backed Income Fund Ltd* and *GCP Student Living plc*. 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 three open ended funds, *VT Gravis UK Infrastructure Income Fund*, *VT Gravis Clean Energy Income Fund* and *VT Gravis UK Listed Property (PAIF) Fund*. The open ended funds are managed by Valu-Trac Investment Management Ltd.

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 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 involve ourselves in long-term projects that offer a human dimension, investing in assets that will be needed for many years to come, such as hospitals, schools, student accommodation, energy generation and other social and economic infrastructure. Our infrastructure investments are generally underpinned by obligations of UK central and local government and always by long-term predictable, contracted cash-flows, while our student accommodation investments generate non-correlated counter-cyclical income and are supported by the stable long-term demand for UK higher education facilities.

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

Our funds seek to deliver dependable and predictable long-term income for investors. This means we invest for the long-term. Our long-term 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 split into two. One team deals with *GCP Infrastructure Investments Ltd* and *GCP Asset Backed Income Fund Ltd*, the debt funds, and the other with *GCP Student Living plc*. The 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 the debt 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.

For *GCP Student Living plc*, the asset management function is largely outsourced to specialist student accommodation managers who carry out the day-to-day facilities management and rent collection, amongst other things. Gravis oversees and reviews the reporting provided by the asset managers.

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.

## 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 the funds.** Gravis operates a fair allocation policy which involves the following considerations:
  - contractual obligations;
  - target return profile for the 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 the 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. 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.

#### **Principle 4**

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

As AIFM to the three 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 respective 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.

2020 was dominated by the Covid-19 pandemic and its impacts on global financial markets. Gravis, along with the boards of the respective funds, has closely monitored the crisis and continues to assess the potential impact across the business in order to instigate appropriate mitigation plans where necessary. The safety of employees and, where relevant, customers has been of paramount importance throughout this process.

#### **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.

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:

- Portfolio update;
- Corporate matters;
- Transaction and investment update;

- Financial performance; 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)

## 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 adaption, 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 animal testing, armaments, alcohol production, 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.

## 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 and receives regular reporting from the property asset managers.

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 three open ended funds. These reviews focus on costs, charges and documentation (including Prospectuses, KIDS, 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.

For *GCP Student Living plc*, Gravis works closely with the asset managers to ensure assets are maintained to a high standard and there is engagement with employees, suppliers and students.

Where necessary, Gravis Advisory Ltd will seek to engage with company management of holdings in the open ended funds where it is considered they are not demonstrating suitable engagement with ESG issues. The approach differs slightly between the three open ended funds. The *VT Gravis Clean Energy Income Fund* is managed in line with a responsible investment statement. For the *VT Gravis UK Infrastructure Income Fund* and *VT Gravis UK Listed Property Fund* information on a range of ESG metrics is collected and this information is used to inform engagement.

Gravis Advisory Ltd engages in regular meetings with company management of holdings in each portfolio during which a detailed discussion is held to establish the investment case to continue holding the security. Prior to Covid-19 most engagements were in person, however throughout 2020 frequent use of online conference facilities have been utilised.

### **Principle 10**

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

Gravis has been a signatory to the United Nations Principles for Responsible Investment (“UNPRI”) 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.

### **Principle 11**

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

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

## **Exercising rights and responsibilities**

### **Principle 12**

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

Voting in respect of holdings in the three open ended funds is undertaken by the investment manager, Valu-Trac. Valu-Trac vote on behalf of the funds, via a system called ProxyEdge, following consultation with the

fund adviser. There are no standing instructions in place (i.e. 'vote in line with board recommendations', for example).

The *VT Gravis Clean Energy Income Fund* is managed in line with a responsible investment statement which states the fund adviser should engage in the systematic use of voting rights to encourage the implementation of best practise with regards to ESG considerations and with an aim to improve business sustainability and diversity. The *VT Gravis UK Infrastructure Income Fund* and *VT Gravis UK Listed Property Fund* are not managed in line with a responsible investment statement, however the fund advisers seek to vote consistently and in the best interest of investors.

The key principals for each vote are to ensure the continuation of adherence by the company management of each holding that their business is managed in the best interests of shareholders including good quality, fair and honest corporate governance, a significant and increasing focus on improving company engagement with environmental concerns and finally each holding is scrutinised to ensure they adopt and practice socially acceptable policies in regard to all stakeholders and staff.