OUR APPROACH TO RESPONSIBLE INVESTMENT & ESG

GUINNESS GLOBAL ENERGY

POSITIVELY DIFFERENT

GUINNESS GLOBAL INVESTORS

CONTENTS

This paper outlines our approach to responsible investing when managing the Guinness Global Energy strategy. In the paper, we refer to the UN PRI definition of responsible investing, explaining what ESG means to us and how it is incorporated into our investment process. The paper also discusses our stewardship activity, including how we engage with companies on ESG issues and fulfil our proxy voting responsibilities.

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INTRODUCTION TO RESPONSIBLE INVESTING & ESG

DEFINING RESPONSIBLE INVESTMENT

The UN PRI defines responsible investment (RI) as “a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership”. There are several components to responsible investing, which the PRI summarises as follows:

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<tr><td colspan="3">ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic</td><td colspan="2">Investors can encourage the companies that are already invested in to improve their ESG risk management</td></tr>
<tr><th>INTEGRATION</th><th>SCREENING</th><th>THEMATIC</th><th>ENGAGEMENT</th><th>PROXY VOTING</th></tr>
<tr><td>Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.</td><td>Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on investor’s preferences, values or ethics.</td><td>Seeking to combine attractive risk-return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.</td><td>Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.</td><td>Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.</td></tr>
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Aspects of each of these responsible investment components are included in the Guinness Global Energy investment process and are described below.

DEFINING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG incorporation refers to measuring and assessing the potential risk and opportunities from environmental, social and governance factors. Environmental criteria consider how a company performs as a steward of nature; social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates; and governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

- Environmental concerns are growing and forcing regulators to take notice and take action. For example, the impact of BP's Deepwater Horizon explosion and oil spill on the Gulf Coast reportedly cost the company around $62 billion. The diesel emissions scandal is another example, reportedly costing Volkswagen upwards of $46 billion in the US alone. Negative environmental factors can clearly be detrimental to the financial results of investee companies.

- Similarly, the social impact of a company's behaviour is increasingly being felt on the bottom line. For example, there have been allegations of human rights abuses from China's Uyghur Muslims in the Xinjiang province, including at major solar companies. The United States and other governments have become increasingly vocal about forced labour in the Xinjiang province, including the imposition of sanctions on some corporations that operate in the region.

- Governance is a critical aspect of the analysis of any company. The effectiveness of a board and executive management team in setting the strategic direction and the culture of the organisation are crucial to a firm's future success. For example, Ørsted has demonstrated climate leadership through its early adoption of green technologies, transforming itself from one of the most coal-intensive energy companies in Europe to the number-one offshore wind farm operator globally.

In the asset management industry, interest in ESG has significantly increased since the launch of the United Nations-sponsored Principles for Responsible Investment (PRI) in 2006. As signatories ourselves, we are committed to adopting and implementing responsible investment principles in a manner that is consistent with our fiduciary responsibilities to clients. We do this by integrating ESG analysis into our investment process and operating an active stewardship programme.

OUR INVESTMENT PHILOSOPHY AND PROCESS

The Guinness Global Energy strategy is a thematic strategy invested in companies that are predominantly involved in the conventional hydrocarbon energy sources of oil and natural gas. The strategy benchmark is the MSCI World Energy Index, which is over 95% dominated by companies involved in the hydrocarbon energy value chain. The Guinness Global Energy strategy has been run with a consistent investment philosophy of value-biased investment analysis with a long-term investment horizon since its inception in 1998.

We believe that active investment management, when coupled with the discipline and intellectual integrity of a good, rigorous investment process, will deliver superior performance for investors.

We believe that inefficiencies exist in all markets as a result of:

1. The behaviour of market participants
2. The flow and types of information being open to multiple interpretations

By adopting an approach in which the key absolute and comparative characteristics of all investments are intelligently analysed and measured, we consider ourselves better able to manage and use the mass of information available.

Our investment philosophy leads us to place importance on the following activities:

1. Understanding key macro drivers
2. Intelligent screening of a large group of relevant equities
3. Understanding what we own via interaction and diligent, detailed analysis
4. Generating our own ideas rather than relying on investment ideas from third parties
5. Maintaining a structural sell discipline

We believe that ESG analysis is embedded within a number of these activities. Specifically:

- Understanding the key macro drivers of global energy markets requires us to form a view on the winners and losers in the energy transition from an environmental and social perspective. For example, we must understand the environmental drivers behind wind and solar power generation taking market share from fossil fuel power sources as carbon costs increase.
- Our intelligent screening of a large group of relevant equities includes ESG scoring to identify poorer performers.
- Understanding what we own involves discussion with investee companies around ESG concerns, whilst our company modelling and qualitative ESG analysis capture any quantifiable effects of ESG factors.

Simply speaking, we believe that considering ESG issues is a pragmatic part of our day-to-day activities as investors, helping to form our understanding of the business model of a company, its potential to create long-term return on capital, and its mitigation of risk.

ESG INCORPORATION

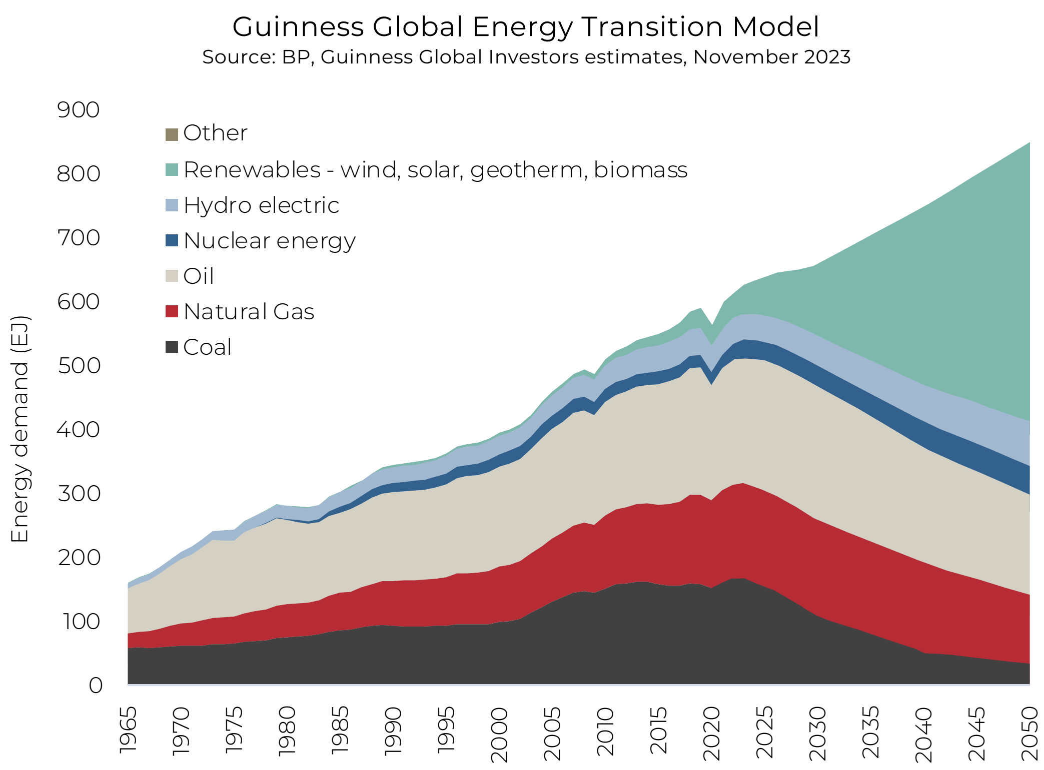
The first approach to ESG Incorporation, according to the UN PRI, is the integration of ESG factors. The PRI defines this as *"explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns."* As long-term investors seeking to identify good quality companies across our portfolios, we believe that ESG considerations play a direct role in managing company specific risks and thus can have the potential to have a meaningful impact on long-term returns.

We believe ESG factors impact both the 'top-down' and 'bottom-up' parts of our investment process for the strategy:

INTEGRATING ESG FACTORS IN OUR TOP-DOWN ANALYSIS

We think of top-down ESG as the various short and long-term trends associated with the global energy transition that help us understand which energy sources will see demand grow in the coming years, and which will struggle to sustain the appropriate social licence to be part of the mix.

Here we lean on over 20 years of energy investing experience and our in-house global energy transition model, which analyses how the world likely moves away from hydrocarbon-based fuels in the coming 30 years. Top-down ESG factors at play in the model include issues such as government incentives and subsidies, urban pollution, energy security, and carbon taxation. Many of these will be as important as economic factors – i.e., the falling costs of sustainable energy technologies – in determining the outcome.



For oil and gas sectors, our top-down ESG work manifests itself as a series of oil and gas price sensitivities that range around market prices. The lower price scenarios tend to be associated with 'harsher' ESG outcomes for the oil and gas world: typically, where the shift to sustainable energy is relatively fast. Conversely, higher price scenarios correspond to outcomes where the demand for hydrocarbons sustains better. Our oil & gas price sensitivities are carried out as part of our company modelling programme, allowing us to sensitise our portfolio and judge the financial outcomes of various ESG scenarios. Importantly, our company modelling also incorporates sensitivities around carbon pricing, which we expect to increase in scope and amount over the next few years.

Our top-down ESG analysis ultimately contributes to the identification of which global energy subsectors we think are likely to achieve sustainable growth in the years to come. These subsectors become areas of focus in the portfolio.

INTEGRATING ESG FACTORS IN OUR BOTTOM-UP ANALYSIS

We screen a universe of around 370 individual energy equities and maintain detailed valuation models on around 60 of them. This allows us to flex various operating and financial assumptions to allow for the effect of ESG issues and to assess their impact on intrinsic valuation. Examples include:

- Flexing the cost of capital in our discounted cash flow (DCF) models (for example to allow for geopolitical, social and governance risk around emerging market companies)
- Flexing our target multiples (potentially using higher multiples for better 'quality' companies, including those that might have better ESG characteristics)
- Operating cost sensitivity to allow for higher credits (or costs) associated with energy saving or de-carbonising activities (or carbon emissions for the very small number of companies that have carbon-emitting operations)

Key to this micro analysis and stock selection is the assessment of risk-adjusted value in the equity of each company. Good ESG behaviours from our companies (e.g., robust risk management and long-term planning; allocating capital wisely; or integrating well with the communities in which they operate) are important components in defining future return on capital employed and future equity valuation. However, we will consider owning a company that has some weaker ESG characteristics if, after these considerations, we see an attractive risk-adjusted valuation and a positive direction of travel with respect to these issues. An example of this would be our ownership of some oil sands companies in the strategy where we believe that the high free cash flow generation and dividend yields justifies our ownership. We meet with relevant companies and engage on issues such as carbon intensity, carbon capture, carbon taxation, energy efficiency and wastewater management.

SCREENING

The second approach to ESG Incorporation, according to the UN PRI, is the application of screening. The PRI defines this as *"applying filters to lists of potential investments to rule companies in or out of contention for investment, based on investor's preferences, values or ethics."*

We split our screening approaches for this strategy into positive screening and negative screening, as described below.

POSITIVE SCREENING

The Guinness Global Energy strategy is focused on investing in equity securities or global companies principally engaged in the production, exploration and discovery, or distribution of energy derived from fossil fuels and the research and development or production of alternative energy sources. Alternative energy includes but is not limited to energy derived from such sources as solar or wind power, hydroelectricity, tidal flow, wave movements, geothermal heat, biomass or biofuels.

NEGATIVE SCREENING

The strategy excludes some companies based on their activities.

Controversial weapons

We exclude companies that have been identified by credible third parties as being directly involved in the design, manufacture or sale of cluster munitions, landmines, and biological and chemical weapons.

Thermal Coal

We also exclude companies that generate more than 30% of revenues via thermal coal extraction or thermal coal-based power generation.

Our company-level Exclusion Policy can be found on our website.

STEWARDSHIP - ENGAGEMENT

As active, long-term investors, we seek to encourage the companies in which we invest to adopt best-in-class ESG practices. As a minority shareholder in public equities, we recognise that our engagement 'clout' is likely to be limited compared, say, to that of a large private equity firm which takes majority stakes in its investee companies. However, we believe that successful long-term engagement shares parallels with Richard Thaler's nudge theory; the idea that behaviour and decision making can be influenced through positive reinforcement and suggestions for improvement. We may be a sole actor trying to nudge the company in the right direction, but when multiple actors, either independently or collectively, nudge in the same direction of positive change, it is far harder for management, industries, and governments to ignore.

THE GUINNESS ENGAGEMENT FRAMEWORK

In our engagement efforts, our communication with portfolio companies can involve debating top-down ESG themes with management, questioning management on poor bottom-up ESG scores or key issues raised in our qualitative ESG analysis. Our engagement framework has three pillars:

- Disclosure: Once a risk is measured, it can be managed through target setting.
- Target setting: Once a target has been set, it can be incentivised through remuneration.
- Incentivisation: Once a target is incentivised, it is more likely to be achieved.

As signatories to the UN PRI, we are aware of the importance of tracking these additional engagements and record data accordingly. We have a central engagement database used by all investment teams to record and track these interactions with reference to those that included discussion around E, S or G topics. The engagement database allows us to analyse the range of engagements that have occurred over a period.

We report on our engagement activity in our Stewardship Code Report available here.

COLLABORATIVE ENGAGEMENT

We also believe in collaborative action around ESG issues: focused programmes of engagement where the sum of the parts is significantly more effective than if each participant attempted to engage across the whole sector. The most relevant example of this to our energy strategies would be our membership of Climate Action 100+, which is widely regarded as the world's leading engagement group on the issue of greenhouse gas emissions.

As a signatory of the Climate Action 100+ initiative, Guinness has signed up to a common engagement agenda that seeks commitments from boards and senior management to:

- Bolster governance: Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- Take action: Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement goal of limiting global average temperature increase to well below 2˚C above pre-industrial levels.

- Improve disclosure: Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate related Financial Disclosures (TCFD) and, when applicable, sector specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2˚C, and improve investment decision making.

Within the oil & gas sector, Climate Action 100+ investors are calling on the 40 oil and gas companies on the focus list to create long term energy transition plans, with aligned short- and medium-term targets. The Climate Action 100+ programme operates by asking Guinness Global Investors to engage directly with one of the 40 focus oil and gas companies. For Guinness, the relevant company is Imperial Oil, a $36bn Canadian listed oil & gas producer with operations mainly in Canada. Our engagement with Imperial can take place via a variety of approaches, including correspondence, one-to-one meetings, making statements at the company AGM, and working carefully on voting and shareholder resolutions relating to climate change risk. Prior to Imperial Oil, we were directly engaging with Devon Energy, a $30bn US listed oil & gas producer. This engagement ended in 2023.

ESCALATION

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements.

We identify a number of methods to escalate our engagements. These may take place in any order or frequency:

- Further formal correspondence signalling discontent
- Additional meetings or communication with executives or non-executive directors
- Signal discontent via exercising our votes against individual directors or non-director resolutions

Whilst divestment is also an option, we believe that divestment can simply transfer ownership of problematic companies to less responsible owners. Ultimately, our preference is to influence and affect change through engagement and the escalations identified above. However, if we have exhausted our options, have seen insufficient progress, or believe that there is a clear risk to shareholder value, we may choose to divest if we believe it is in the best interest of our clients.

STEWARDSHIP - PROXY VOTING

As portfolio managers we manage the voting rights of the shares entrusted to us and are responsible for voting for the companies held within our funds. Proxy votes are cast in a prudent and diligent manner, based on the managers' judgment of what is in the best interests of clients. Records of voting activities are maintained and reviewed on a quarterly basis by the Responsible Investment Committee.

To assist in filing proxies, we retain proxy voting advisory services. While we take note of proxy research and recommendations, we are under no obligation to follow them; our portfolio managers vote according to their own views and research insights.

In order to vote, some markets require shares to be temporarily immobilised from trading until after the shareholder meeting has taken place. Other markets require a local representative to be hired, under a Power of Attorney, to attend the meeting and vote on our behalf. In such instances, it may sometimes be in clients' best interests to refrain from voting. In all other circumstances we endeavour to exercise our voting responsibilities on behalf of our clients.

Guinness Global Investors has a company-level proxy voting policy which covers resolutions on ESG issues. The policy and a summary of proxy voting activity is available on our website.

ASSOCIATIONS

We understand that participation in relevant industry initiatives is essential to the development of best practice in responsible investment. We participate in several initiatives in order to promote proper functioning of markets, improve our understanding in the area and contribute to the industry. These include the following:

The Investment Association (IA) has over 200 full members managing over £8.5 trillion in assets. As the trade body for the UK investment management industry, it seeks not only to represent the interests of that industry but also to improve the investment landscape for investors through initiatives which highlight certain topics – such as diversity and inclusion in the industry – and by improving standards and best practice. In addition to its membership of the Association, Guinness Global Investors participates in the Compliance Discussion Group, which provides an informal discussion to share issues, concerns, and solutions within the compliance function. The effect of our membership is to promote the good functioning of the investment market in the UK through these initiatives to the benefit of investors and the economy.

The UK Sustainable Investment and Finance Association (UKSIF) aims to support its members to grow sustainable and responsible finance in the UK. It also seeks to influence policymaking that promotes the growth of sustainable finance. Our membership constitutes part of a collective effort to promote sustainable finance in the UK.

The Independent Investment Management Initiative (IIMI) aims to contribute to effective financial regulation and promote client-centred models of investment management. Our membership, among that of over 40 firms, aims to promote initiatives which improve the functioning of the investment management industry. Most recently, a call with the UN PRI allowed members to discuss concerns and recommendations for their reporting system, to contribute to a more effective reporting procedure for future reporting periods. Our CEO, Edward Guinness sits on the board of IIMI.

The Task Force on Climate-related Financial Disclosures (TCFD) seeks to improve the availability of information needed for climate-related risk management. By being a supporter, we are part of the effort to promote informed capital allocation.

Climate Action 100+ is a collaborative engagement programme through which Guinness Global Investors engages with Imperial Oil, a $34bn Canadian-listed oil & gas producer with operations mainly in Canada. The collaborative nature creates a programme of concentrated engagement with focus companies, where the sum of the parts is significantly more effective than if each participant attempted to engage across the whole sector.

CFA UK's mission is to build a better investment profession by serving the public interest by educating investment professionals, by promoting and enforcing ethical and professional standards and by explaining what is happening in the profession to regulators, policymakers, and the media. A member of staff at Guinness is part of the Sustainability Community Champions group.

Octo Members is a private group for financial services professionals. The community enables members of the investment management industry to share thought leadership and explore better business practices. It presents videos, podcasts, questions & answers and panel discussions to allow members to learn from their peer and improve the industry in a collaborative manner.

IMPORTANT INFORMATION

This document is provided for information only. All the information contained in it is believed to be reliable but may be inaccurate or incomplete; it should not be relied upon. It is not an invitation to make an investment nor does it constitute an offer for sale.

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