# Responsible Investment Report 2024

GCQ
GLOBAL CONCENTRATED QUALITY

# Contents

# 1. Foreword

At GCQ, our investment objective is to generate a return of 8-12% p.a. net of fees over a market cycle. Our concentrated portfolio of approximately 20 companies represents a selection of the world's best businesses.

The foundation of our investment process is industry analysis, targeting industries with substantial and enduring barriers to entry. These industries are typically monopolies, duopolies or oligopolies. We concentrate our efforts on about 20 industries, encompassing around 200 companies that we meticulously research and monitor for performance and valuation.

We prefer investing in companies with growth potential that extends beyond a single geographic market. The vast majority of companies we analyse are global operators experiencing worldwide growth.

Our focus is on businesses that deliver long-term prosperity. This requires a long-term perspective on the relationship between investment, the economy, environment and our society.

Therefore, when selecting industries to focus on, we exclude those with material environmental, social and governance (ESG) risks.

We explicitly incorporate consideration of ESG risks into investment decision-making and, as active owners in the companies in which we invest, we constructively advocate for positive ESG changes, guiding our investments towards a sustainable future.

GCQ was only established in 2021 and we have taken time to carefully consider the formal policies and practices that will best serve our investors in relation to Responsible Investing. While some elements of our approach are still being established and operationalized, I am pleased by the progress that has been made to date and the plans we have for the future.

This is our inaugural Responsible Investment Report. I look forward to reporting on our continued progress in years to come.

**David Symons**
**Chief Executive Officer**
November 2024

GCQ

## 2. Our ESG investing approach

We believe that responsible investment factors can affect the performance of investments and the existence of significant Environmental, Social or Governance issues is likely to lead to reduced earnings sustainability. Earnings sustainability is one of the hallmarks of a "quality" company that qualifies it to be considered for inclusion in the GCQ investment strategy.

Our approach to ESG in the investment process involves:

### *a) Screening out companies that are assessed to have an unacceptable level of ESG risk;*

We exclude from our investment universe companies operating in a number of industries that are judged to be either socially undesirable or carry unacceptable environmental risk. The list of exclusions currently includes companies with products connected to:

- Tobacco;
- Gambling;
- Cluster munitions;
- Child Labour;
- Thermal Coal; and
- Precious metals mining.

### *b) Identifying all significant ESG issues relating to each portfolio company and any company being considered for inclusion in the portfolio.*

This work is undertaken by the investment team and, once identified, an assessment is made of the significance of each issue for a) the long-term sustainability of the business and b) for valuation. The outcome of this review is then used to answer two ESG-related questions on the GCQ Business Quality Checklist.

These checklist questions require the investment team to make an assessment of whether 1) corporate governance is friendly to minority shareholders, and 2) the company is free from major environmental and social issues that threaten long-term business sustainability. Any company that is identified as having major ESG issues is automatically excluded from further consideration.

### *c) Review by the GCQ CEO of the investment team's assessment of the expected impact of ESG issues on earnings sustainability of businesses that are being considered for inclusion in the portfolio but that third party analysts have identified as having heightened ESG risks.*

One indicator that a business model may not be sustainable is a high ESG risk rating assigned by an ESG research agency. Therefore, if any portfolio company – or company that is being considered for inclusion in the portfolio – has a High (>30) risk rating assigned by Sustainalytics, the investment team's analysis of ESG issues will be the subject of review by the GCQ CEO to independently assess whether 1) ESG-related risks are likely to impact the long-term sustainability of the business, and 2) whether ESG risks have been appropriately incorporated into the GCQ valuation.

## 3. Active Ownership

By actively engaging with portfolio companies, we seek to influence the management of material issues that can impact long-term returns.

Areas that may be the focus of engagement will vary from year to year and include:

*a)* *Alignment with long-term objectives –* we expect companies to create and enhance value for the long term while appropriately balancing their best interests with those of shareholders and stakeholders.

*b)* *Identification and management of material issues –* we expect companies to act in a responsible way. This includes identifying and managing material risks. Assessment of risks and opportunities should consider financial, regulatory, operational, reputational and legal impacts.

*c)* *Strong governance and accountability –* we expect companies to have effective systems and processes in place to ensure clear accountability for strategy implementation, risk management and company performance.

*d)* *Preserving a social license to operate –* we understand that an entity's social license to operate is a valuable intangible asset. It is founded by the trust a company has earned with its stakeholders. We expect companies to effectively engage with stakeholders to maintain this social license to operate.

*e)* *Transparency and adequate disclosures –* as shareholders, we require transparent and meaningful disclosure from companies for informed decision-making. Companies should publicly disclose all information that is or is expected to be material in the long term, in a timely and complete manner, including any environmental, social and governance issues.

*f)* *Meaningful plan to achieve net-zero carbon emissions –* as shareholders, we expect all companies to do their part to achieve net-zero carbon emissions across their operations within a reasonable timeframe. This may require investing in carbon-free energy and collaborating with partners to achieve a broader impact.

During the past year, our active ownership initiatives have been focused on making a climate risk assessment for all portfolio companies.

The purpose of the assessment is to understand whether 1) there is material adverse risk to the business' future cash flows; and 2) the company is a good corporate citizen.

The core question we have sought to answer in our climate risk assessment is whether a portfolio company's business model is consistent with the world's transition to net zero emissions by 2050. As stipulated in the Paris Agreement the transition to net zero is required to limit global warming to 1.5ºC.

We answer this question through identifying whether 1) our portfolio company has a target to reach net zero carbon emissions by 2050; 2) the target is credible; and 3) the company provides regular carbon emissions data which enables our team to track progress towards achievement of these targets. Our assessment is focused on a company's scope 1 and 2 emissions because these are a function of activities which are directly under management's control.

We have engaged with portfolio companies which do not have a formal net zero target to understand their rationale and encourage them to initiate a target if we believe it is appropriate to do so.

## Net zero targets

We currently hold investments in 17 companies in the GCQ Flagship Fund. We are pleased that 12 companies within our portfolio have a target to reach net zero emissions by 2050, with the majority setting themselves an earlier timeframe for achieving this goal (see table below). 11 companies in our portfolio have an interim emissions reduction target. Interim targets – under which companies aim to eliminate a portion of their emissions by a particular date – show incremental commitment by businesses to their longer-term net zero targets.

| 2030 | 2040 | 2050 |
|---|---|---|
| Alphabet | amazon | Hemnet |
| Meta | VISA | WD-40 COMPANY |
| | rightmove | HERMÈS |
| | MSCI | |
| | | |

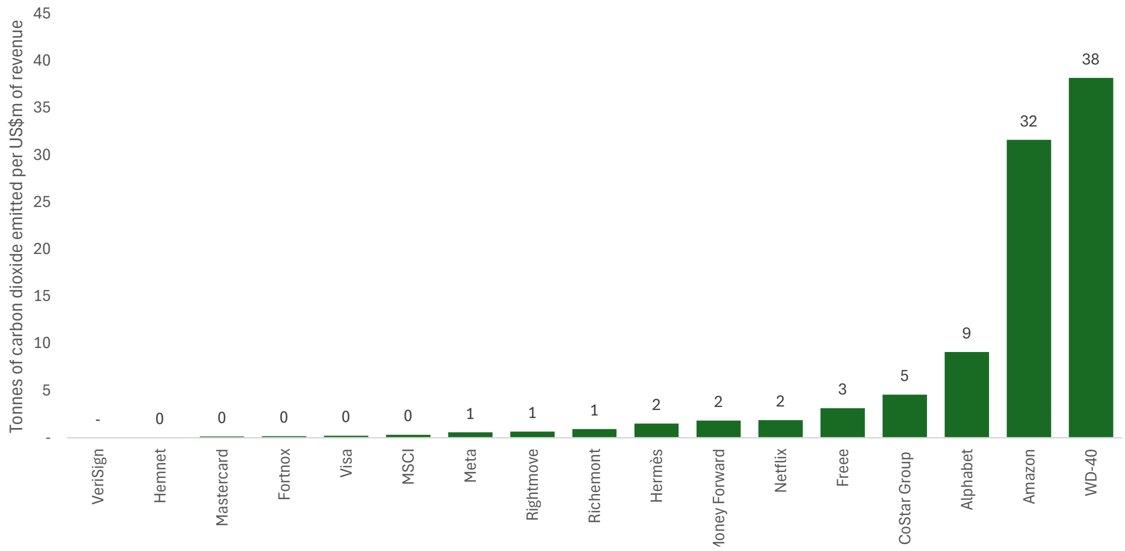
Notes: 1) The table above excludes two companies in the GCQ portfolio (part of the 'Other High-Quality Businesses' bucket) which have a target to reach net zero by 2050. 2) Companies are sorted into categories based on the year in which they target reaching net zero.

## Credible emissions reductions targets

We assess whether a company's net zero emissions target is credible through understanding the size of a company's scope 1 and 2 emissions, the source of these emissions and judging whether a company's initiatives to abate those emissions are likely to be effective.

### GCQ Portfolio Emissions Intensity by Company

(tonnes of carbon dioxide equivalent per US$m of revenue)




Source: Company disclosures, GCQ Funds analysis. Note: VeriSign does not disclose its scope 1 and 2 carbon emissions. Management indicated that VeriSign's operations have minimal carbon intensity.

Most businesses in the portfolio have very limited carbon emissions intensity (measured as tonnes of carbon emissions per US$m of revenue). This is a function of GCQ's focus on owning high-quality businesses which tend to be asset light and highly scalable.

Our portfolio companies' stock of scope 1 and 2 emissions are largely attributable to 1) internal-combustion engine powered company vehicles used by employees; and 2) electricity purchases from the grid which are used for a company's internal operations e.g., manufacturing or data centres.

The key initiatives being used by all portfolio companies to abate these emissions over time are:

1. shift the fleet of petrol-powered company owned vehicles to electric vehicles (addresses most scope 1 emissions); and
2. procure renewable electricity (addresses most of the scope 2 emissions).

Examples of initiatives undertaken by portfolio companies include:

- Amazon is targeting to have at least 100,000 electric delivery vans in their transportation network by 2030. The company has been making strong progress towards this target. In 2023, Amazon delivered ~680m packages using ~24,000 electric delivery vehicles.
- Richemont (owner of jewellery brands Cartier and Van Cleef and Arpels) is aiming to source 100% of its electricity from renewable sources by 2025. The company has undertaken various projects to contribute to achieving this target. For example, Cartier shifted the electricity purchased from one of its manufacturing facilities to entirely renewable sources through 1)

installation of 3,800 square metres of solar panels on the roof of the facility; and 2) utilising the energy from a hydroelectric power station located near the facility, in which Cartier is invested.

Amazon and WD-40 are the two companies which have a large carbon footprint relative to other companies in the GCQ portfolio.

**WD-40's** relatively large carbon footprint is driven by the 1) content of its products – represents up to 30% of the company's greenhouse gas emissions; and 2) energy intensity of its manufacturing operations – this is captured in the stock of scope 3 emissions as WD-40 outsources the manufacturing of its products to a third-party. The content of WD-40's products are a key contributor to emissions as the product is crude-oil based. Mitigating the emissions impact of crude-oil based content involves the sourcing of alternate materials to petroleum as the base chemical. WD-40 has been conducting research in this area for the last 15 years. The most prospective option is a plant-based formula. Reducing manufacturing-driven emissions relies on third-party manufacturers increasing their use of renewable energy to power their operations.

**Amazon's** large transportation network (moving goods over sea, air and road), which is used to facilitate its e-commerce business, is the key driver of its relatively large scope 1 and 2 emissions footprint. The strategies to mitigate these emissions are the same as those being used by other portfolio companies – albeit at larger scale.

## Engagement

Five of our portfolio companies do not have a net zero emissions footprint reduction target. We have corresponded with each company seeking to understand their rationale for not setting a net zero target. This has resulted in meaningful engagement with three companies – Money Forward, Freee and VeriSign. The key takeaways were:

- **Money Forward:** Management are currently undertaking a process to quantify their scope 3 carbon emissions footprint. Scope 3 emissions are generated by activities external to the company e.g., emissions generated by a supplier from which the company purchases products. Scope 3 emissions are difficult to compute. Management intends to set net zero (and potentially interim) carbon emissions targets after this process has been completed.
- **Freee:** Management noted that Freee's product is positive for the global carbon emissions footprint as the use of its accounting software assists in reducing paper usage. The company's business model (it doesn't operate factories or facilities) is inherently low carbon. Management is considering whether to set emission reduction targets and is in the process of assessing which benchmarks to use.
- **VeriSign:** Management is reluctant to set a net zero target as the SEC is in the process of creating carbon emission disclosure rules / obligations for companies. VeriSign aims to follow these guidelines once they are created. The de minimis carbon emissions intensity of the business has also been a factor in the company's approach to target-setting.

## Voting

Exercising our right to vote is one way in which we seek to further our clients' best long-term economic interests.

During the year, we developed a Voting Policy, which can be accessed **here.** In the future, it will be reviewed each year to ensure it remains current for any changes in regulations or standards.

We make independent decisions when voting, and do not use the services of a proxy adviser.

## 4. Modern Slavery

Modern slavery describes situations where offenders use coercion, threats or deception to exploit victims and undermine their freedom.

GCQ believes that organisations have a responsibility to consider their role in ensuring the respect of human rights and the avoidance of human rights abuses.

GCQ recognises that every business has the potential to inadvertently cause, contribute to, or be directly linked to modern slavery through its operations and supply chains. GCQ acknowledges that modern slavery risks may be present in:

- the supply chain of service providers used by GCQ to manage its operations and funds, and
- the underlying companies that GCQ invests in and their extended supply chains.

GCQ is not required to report under the Commonwealth Modern Slavery Act 2018. However, we believe we are opting to move to annual voluntary reporting of a Modern Slavery Statement under the Act, commencing 2025. We believe ongoing engagement on the issue of modern slavery within our suppliers and our portfolio companies, we look forward to making a positive contribution towards the reduction of human rights abuses.

You can find GCQ's Modern Slavery Statement on our website here.

## 5. United Nations Principles for Responsible Investment

GCQ is a signatory to the United Nations Principles for Responsible Investment (the Principles).

The Principles state:

*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*

- *Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.*
- *Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.*
- *Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest. Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.*
- *Principle 5: We will work together to enhance our effectiveness in implementing the Principles.*
- *Principle 6: We will each report on our activities and progress towards implementing the Principles.*

*The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.*

*In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles.*

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