RM Funds

ESG and Sustainability Semi-Annual Report

July 2025

Welcome to the award-winning business at RM Funds. Our focus is on Alternative Investments where returns are not directly correlated to traditional fixed income and equity markets.

Headquartered in Edinburgh with offices in London, RM Funds has a team of analysts with a focus across private credit, specialist real estate and infrastructure. Such focus means we are superbly positioned to deliver above average and stable income returns whilst seeking to protect downside risks for investors.

Overall, the key theme across all of the RM strategies is income generation and capital preservation, coupled with low volatility. The bespoke strategies we run aim to achieve steady returns that match investors requirement for income in a post-global financial crisis landscape of low yields. Importantly we try to develop products which are not largely correlated to traditional equity and fixed income assets and are therefore relevant to any investor seeking investment opportunities away from debt or equity funds.

RM Funds are fully committed to the Financial Reporting Councils Stewardship Code. RM Funds is a public supporter of the Paris Agreement and Task Force on Climate -Related Financial Disclosures (TCFD). We seek to be stewards of our investors capital, actively engaging with portfolio companies to drive responsible business practice and social and environmental awareness.

James Robson, Chief Investment Officer

Senior Team Members

Whether a request for a portfolio update or a distribution enquiry, the team are always delighted to answer investor questions.

James Robson

Chief Investment Officer

James is Lead Portfolio Manager for the SVS Infrastructure Bond Fund and Co-Manager of listed Investment company, RM Infrastructure Income PLC. James started his career at HSBC in 1997 and latterly ran the HSBC European Corporate Credit Trading business. After working at Dresdner Bank and RBS he set up RM Capital in 2010 and has been instrumental in the growth and development of the business. James sits on the Risk Committee and the Board of RM Capital. With over 25 years of experience in credit investing and lending he gives excellent oversight across the firm's strategies.

Pietro Nicholls

Portfolio Manager

Lead Portfolio Manager for the VT RM Alternative Income Fund, and Former Co-manager of the listed investment trust, RM Secured Direct Lending PLC.

Pietro previously worked at Bear Stearns, JP Morgan and Barclays Corporate & Investment Banking business before joining RM Funds to head up the Investment team in 2013. Pietro has c.18 years of extensive experience structuring, executing, and managing alternative assets including private credit, real estate, and infrastructure. Pietro is a member of the Investment Committee and Board of RM Capital.

James Satterthwaite

Head of Distribution

James' career began at Barclays Capital, working with institutional investors on the UK Fixed Income team. With a Credit Sales background, James joined RM in early 2011 to grow distribution to UK institutions. His focus has been to broaden and deepen these relationships, and he enjoys touring the country to meet with investors and demonstrate where RM Funds products can benefit client portfolios. James feels a key part of the distribution role is to provide feedback to the portfolio managers on investor requirements, helping RM take a solutions-led approach to developing fund strategies. In addition, James is on the Board of RM Capital.

ESG and Sustainability Semi Annual Report

RM Capital Markets

Reporting Period – First Half 2025

1. Engagement made from existing/prospective shareholders

ESG engagement was relatively quiet in the first half of the year, but activity has picked up in recent weeks. We've recently received several DDQs from both existing and prospective clients, with increased focus on **governance engagement** and **voting** matters.

Notably, we were approached by an FCA-regulated ESG and sustainable investment advisor. They reached out as some of their prospective clients are seeking ESG ratings for alternative investments, specifically in relation to RMAI. We've responded by providing our RI policy, the 2024 ESG report, and completed questionnaires. There are no costs associated with their review, and a strong rating could offer valuable exposure for the fund.

2. Engagement made year to date:

Group Call, Update Call, Webinar, Capital Market Day: **54**

1-to-1 Management Meetings: **46**

Board Meeting: **8** (GRP, GSF, FGEN, NESF, FSFL, THRL, GRIO, WHR)

Site visits: **2** (PPHE, NESF)

DDQs sent: **10**

3. Governance aspect:

GSF – Continuous engagement throughout 2025

Engagement(s):

RM first sent an engagement letter to the Board of GSF in December 2024 and continued to engage with, and send subsequent letters to, the Board throughout the first half of 2025. The areas we engaged in were their dividend policy, geographic diversification, asset allocation policy, and the misalignment of the Investment Management Agreement (i.e., poison pill provision).

Due to sustained shareholder pressure led by RM Funds, the Board has now implemented material reforms:

- **Base fees** rebased to reflect NAV and market capitalization.
- **Performance fees** removed.
- **Poison pill** protections dismantled, allowing for corporate flexibility and improved governance alignment.

Several of our recommendations have been adopted, only following sustained shareholder pressure; thereby proving that earlier action could have protected significant value. The Board's stance on renewal has been inconsistent, rejecting the need for new expertise even after announcing a refreshment; we now expect the prompt appointment of two qualified directors without delay or excessive advisory costs.

Given the Company's subscale and complexity, we believe a phased break-up, starting with the US sale and UK/Ireland sale or merger, is the most value-enhancing path.

The GSF Board has called the requisitioned General Meeting for August 20, 2025, and the voting deadline is August 18, 2025.

NESF – May/Jun 2025

Concern(s):

- **Governance and Board Composition:** The sudden resignation of Chair Helen Mahy CBE raises concerns about internal conflict. The Interim Chair has shown weak leadership and lacks strategic clarity.
- **Persistent Share Price Discount:** Buybacks and debt repayment have been slow and ineffective, with no share price improvement. The Board offers no bold plans to address the discount.
- **Investment Manager Misalignment:** Despite poor returns, the fee structure remains unchanged and lacks urgency for reform. The Board resists aligning incentives with performance.
- **Rejection of Strategic Interest (M&A):** A credible approach from Foresight Solar Fund was dismissed without transparency. Shareholders were not consulted, despite broad support for consolidation.

Engagement(s):

RM sent a letter to the Board in June 2025, urging them to act urgently on several key recommendations:

- The Interim Chair and Senior Independent Director should resign immediately, with a search launched for qualified replacements with sector and investment company experience.
- The Board must serve notice on the Investment Management Agreement and begin a transparent re-tender process, including external candidates beyond the NextEnergy group.
- A formal strategic review should be announced, including setting up a data room for credible trade, infrastructure, and private equity bidders.
- The Board must engage openly with M&A opportunities and prioritise shareholder value over legacy relationships.

GRIO – Jun/Jul 2025

Concern(s):

- **Asset Sales**: Recent asset disposals lack transparency and clear strategic rationale, raising doubts about whether fair value is being achieved in light of valuation gaps.
- **Rent Collection and Fee Recovery**: Failure to fully pursue ground rents due to reputational concerns signals a misalignment with fiduciary duties; all contractual income must be collected.
- **Operating Costs**: The cost base is excessively high relative to rental income, with clear benchmarking evidence suggesting unexploited opportunities for efficiency.
- **Wind-Down Execution**: The current strategy prioritises speed over value, with concerning valuation discrepancies suggesting inadequate challenge and commercial oversight.
- **Board Accountability and Governance**: The Board lacks visible leadership and independence, with limited transparency and weak oversight of the Investment Manager during the wind-down process.

Engagement(s):

RM, together with XXX, XXX, and XXX, co-signed a letter to the Board in mid-June, raising several concerns regarding the ongoing stewardship of the Company, particularly relating to the execution of the updated investment policy and the transparency of decision-making processes.

The team had an in-person meeting with the Board and IM in late June and recognised that the key concern for co-signing shareholders is how to balance deleveraging, cash flow optimisation, and cost reduction to maximise asset value. While Schroders inherited a complex portfolio, we believe a ground rent specialist could better manage income and sales. We have urged the appointment of a new Chair (XXX) to lead the Company during the wind-down. XXX is well respected in the city from the institutional side, given his prior senior roles at XXXXX and his seats on various boards (including those in windup).

WHR – Mar 2025

Engagement(s):

We built a position in WHR: LN in XXX and wrote to the Board to strongly encourage them to engage with the Consortium and find a suitable offer that works. Later in the month, we issued a follow-up letter to the Board, urging serious engagement with Blackstone's final indicative proposal.

Ultimately, WHR's Board accepted Blackstone's fifth and final offer of 115p per share on 27 March 2025. They later lowered the price due to not being able to support the valuation of one of the assets. This then opened the door for the second bidder, Tritax Big Box REIT, to come in. They securing their own agreement at about 114.2p per share (cash and share bid offer), valued at roughly £485.2 million.

Blackstone countered with an improved bid, raising its offer to 115p per share (£489 million), including a 1.6p dividend, offering around an 8.3% premium over Warehouse REIT's June 3 share price.

Our engagement efforts likely played a catalytic role in prompting the Board to initiate discussions around the bid offer, creating a window of strategic optionality. This development opened the door for us to begin trimming our position into the subsequent share price rally, allowing us to realie value for our investors (c.6% share price return) when the market responded positively to the takeover interest.

4. ESG DDQ responses across public markets

In the last few months, we received ESG DDQ responses from **CORD, ORIT** and **HICL**. This is the second reporting cycle for **CORD** and the third reporting cycle for **ORIT.**

CORD:

Positive

- CORD has now implemented a system to monitor and track environmental performance across all portfolio companies.
- 73% of the portfolio's energy consumption was derived from renewable sources, an increase from 68% in 2023 and 58% in 2022.
- Total GHG emissions decreased to 18,166 tCO_2, from 22,867 tCO_2.
- Emissions efficiency improved from 70 tCO_2e/£m to 44.5 tCO_2e/£m.
- Hazardous waste increased year-on-year from 5 to 13.5 tonnes, attributed to the decommissioning of assets; considered a positive development.
- Portfolio energy consumption intensity reduced to 528.73 MWh/£m.
- The share of renewable energy consumed across the portfolio rose to 73%, up from 68% the previous year.

- A more robust monitoring and screening process has been implemented to assess material risks associated with extreme weather events.
- No late filing penalties have been incurred in the past 24 months.

Areas for Engagement

- CORD has announced its status as a signatory of the Net Zero Asset Managers (NZAM) initiative; however, it remains unclear whether any substantive commitments to achieving Net Zero have been made.
- No reported Scope 2 or 3 emissions justified on the ground of no employees. However, organisations without employees may still generate Scope 2 and Scope 3 emissions.
- Data on the Scope 3 emissions of the portfolio companies is incomplete.
- The exact number of sites in proximity to KBAs is no longer specified.
- The reliance on fossil fuels due to investment in a highly energy-intensive industry has not been addressed.

ORIT:

Positive

- A firm commitment has now been made to set Science-Based Targets (SBTs) with the SBTi.
- A comprehensive risk management process is in place.
- No fines or complaints have been recorded for non-compliance with environmental laws or regulations.
- Strong reporting of Scope 1, 2, and 3 emissions across the portfolio for the financial year.
- Significant reduction in total portfolio GHG emissions, from 22,216 tCO_2 to 7,8534 tCO_2.
- The portfolio is aligned with a net-zero/1.5°C pathway. Investments are primarily in renewable energy assets that contribute to climate change mitigation. At the manager level, there is an SBTi-aligned commitment to reach net zero by 2050, consistent with the Paris Agreement.

Areas for Engagement

- Low PRI scores noted:
  - Direct- Listed Equity (Active Fundamental Voting): 55
  - Direct- Listed Equity (Investment Trusts, Voting): 55
  - Direct- Private Equity: 63
- Additional detail is needed regarding staff training programs.
- Clarification is required as to whether the target to transition all operational assets to renewable energy tariffs is still in place.
- The removal of discouragement for first-class travel raises governance and environmental concerns.
- 3.0029 tonnes of hazardous waste were generated by portfolio companies; further context may be required.
- Figures for the portfolio’s annual energy consumption in MWh are not up-to-date.
- There are currently no requirements for portfolio companies to conduct security or data checks, this may present a risk.
- Only 14% of senior management are women, falling short of the 30% benchmark commonly expected for FTSE-listed firms.
- Diversity metrics are not tracked at the team level.
- The management gender-pay gap stands at 73%.

- Absence of current net-zero targets contradicts earlier stated commitments.

HICL

Positive

- The company has made additional commitments, including membership in the Global Infrastructure Investment Association (GIIA) ESG Working Group, and the PRI Infrastructure Advisory Council.
- Maintained a 5-star PRI rating, demonstrating continued excellence in responsible investment practices.
- Established clearly defined environmental performance targets across the portfolio.
- Emissions reporting has become more robust, with clear differentiation between management company and portfolio company GHG emissions. Overall emissions declined from 146,190 tCO_2e to 94,576 tCO_2e.
- GHG intensity of the portfolio has improved significantly, dropping from 469 tCO_2e/£m to 239 tCO_2e/£m.
- Hazardous waste generation has decreased markedly, from 106 tonnes/£m to 0.15 tonnes/£m.
- Overall reliance on non-renewable energy sources within the portfolio has decreased.

Areas for Engagement

- Follow up on the actual implementation and integration of the sustainability policy, particularly in relation to the former InfraRed Sustainability Team.
- Request an update on progress made toward monitoring portfolio energy consumption intensity.
- Although reduced, non-renewable energy still accounts for a high proportion (86%) of portfolio energy consumption; engagement on transition strategies may be needed.
- Only 24% of the investment team is female, falling below the FTSE 30% gender diversity benchmark.
- Unadjusted gender pay gap has widened from 20% to 35%.

Capital at risk.
Past performance
is not a guide to
future returns.