DEVON

Equity Management

# Devon Equity Management Limited

## ESG Policy

November 2020

***Although the strategies offered by Devon do not have specific ESG or sustainability objectives and do not employ negative screens, Devon's entire investment philosophy is rooted in a belief that ESG factors are an important and value-adding component of company research irrespective of whether the investor has an explicit ESG sensitivity. We incorporate ESG factors into their investment decisions and view it as a material input to our fundamental evaluation of securities.***

**ESG at Devon is**

- Integrated into the investment process.
- Measured against independent 3rd party ESG rankings.
- Investment Committee Oversight.
- Voting sanctions where investee company progress unsatisfactory.
- Reported in a transparent and consistent manner.

Devon consider ESG issues to be inextricably linked to the broader investment process. We believe that companies with good practices are better placed to achieve good investment outcomes over the long term. As an additional check we use 3rd party ESG scoring to validate our own work and, where necessary, engage with companies to improve their performance.

Finally, we are committed to disclosure and accountability:

- Internally, ESG ratings and engagement are reported to the Investment Committee for oversight. Ultimately, if the Investment Committee deems an investee company's progress to be unsatisfactory, it will instruct Devon to vote against relevant resolutions at the next AGM.
- Externally, we produce an annual ESG report for all our investors, disclosing quantitative scoring and detailing our engagement activities.

Our portfolios ESG risk is considered low, with a Sustainalytics ESG Risk Rating of 20 (9% lower than the benchmark).[1]

## 1. The Investment Process

Devon's overriding philosophy is to act in the collective interest of all our clients. We measure 'collective interest' under a single criterion: maximising investment returns.

Devon's investment decisions are primarily driven by business and financial considerations. We are looking for companies with distinctive characteristics which we expect to yield substantial benefits to shareholders over the long term. As such, we necessarily take political, environmental, and social issues into account, since they are likely to have a material impact on future financial performance.

Given our lengthy holding periods, sustainability of growth is a critical consideration in assessing prospective investments. Companies which depend on unsustainable business practices are unlikely to meet the threshold required for investment at Devon. For example, we place great emphasis on corporate culture and the integrity of management (and undertake extensive research in this area prior to any investment). A strong corporate culture demands a high level of employee satisfaction, and is unlikely to tolerate exploitative labour, uneconomic wages, negligent or dangerous business practices. Similarly, we believe the end consumer of goods or services to be a powerful arbiter. If a company compromises on raw material quality, abuses their supply chain, or underinvests in their workforce, product and/or service quality is likely to suffer. This would have the effect of turning consumers away from the product, damaging the brand, and lowering future growth prospects. Such considerations are central to our investment process.

Devon recognise that certain industries and countries with weak environmental or governance structures present additional business risks for prospective investee companies. As part of our diligence process Devon will be aware of where and how such risks exist. However, provided all applicable laws and regulations are applied and adhered to, we defer to the judgement of management teams as to the appropriateness of operating in any such industry or jurisdiction. If such activities change Devon's risk perception of an industry or company, it may preclude an investment. To provide some context of how this

[1] As of October 2020, Sustainalytics issue ESG ratings on 30 companies covering >95% of Devon's Investments

might apply to Devon's view of risk, over the past 23 years funds managed by Alexander Darwall (CIO) have invested in commodity related companies extremely rarely and remain structurally underweight.

Devon is compliant with the UK Stewardship Code. The Code's principles of management and emphasis on active engagement are closely aligned with the investment philosophy of Devon (which represents continuity with the approach deployed by the CIO for more than two decades). Devon's concentrated, long term approach affords ample scope to engage with management teams on issues relating to culture, governance, and enduring sustainability. It is our belief that these core characteristics of our investment approach are the most effective way for Devon to uphold high standards of governance.

Devon has not agreed to any client specific requests or restrictions as it pertains to ESG matters. We fully acknowledge our clients hold a wide range of beliefs on specific ESG issues – we expect and encourage debate with our clients (as we do with our investee companies). However, it is Devon's view that accommodation of a single client's view around a specific ESG issue is fundamentally incompatible with our stated aim of maximising returns for all our clients in equal measure.

**2. Measurement & Engagement: Third Party ESG Scoring**

We screen all current and prospective investments for Sustainalytics ESG rankings. Our aim is to identify risks we might have overlooked or underestimated in our proprietary research.

Where ESG risk is considered high, we conduct additional due diligence to understand the drivers, and consider (i) whether these deficiencies represent a material risk to the investment case and (ii) whether the management team have a credible strategy to improve in key areas.

Where we judge shortcomings to be within the control of the company (rather than due to a quirk or technical flaw in the ratings process), we will engage directly with the management team to address the issues.

Our engagement has two aims:

(1) Understand why the company currently falls short on certain performance metrics.
(2) Learn of the remedial measures the company has in place to address these shortcomings.

**3. Reporting & Investment Committee Sanctions**

***Internal***

Quantitative Rankings and engagement activities are presented to the Investment Committee on a quarterly basis.

In situations where the Investment Committee fail to see a clear and credible plan, in the first instance we write to the management team expressing our concerns and urging remedial action.

If these deficiencies persist, the Committee will instruct Devon to vote against certain resolutions at the AGM. This may include Director remuneration and re-election.

***External***

We commit to providing an annual ESG report to our investors[2], which will provide the following detail:

(1) Quantitative analysis of our overall Portfolio (as measured by Sustainalytics ESG metrics).
(2) Specific discussion and analysis of companies where the ESG Risk is considered high.
(3) Details of our active engagement with management teams to understand and help improve shortcomings.
(4) Summary of Devon's voting history, specifically highlighting where we have voted against management resolutions on the recommendation of the investment committee.

1.

[2] For investors in JEO, the ESG report will be included in the Annual Report of the Company.