

DEVON

Equity Management

**Devon Equity  
Management Limited**

ESG Policy

February 2021

## 1. Background

ESG at Devon is

- Integrated into the investment process
- Investment Committee Oversight
- Voting sanctions where investee company progress unsatisfactory

## 2. The Investment Process

Devon's overriding philosophy is to act in the collective interest of all our clients. We measure 'collective interest' under the singular criterion of maximising investment returns. To deliver on this aim, identifying companies with sustainable business models and returns is essential. In acknowledgement of this, we consider many ESG issues indistinguishable from core business considerations.

Our investment process looks for companies with distinctive characteristics which we expect to yield substantial benefits to shareholders over the long term. This assessment of long-term prospects necessarily takes political, environmental, and social issues into account since they are likely to have a material impact on future financial performance.

The rise in popularity of investing within explicitly defined ESG parameters formalises questions of sustainability which have been at the core of the investment process employed by Alexander Darwall (CIO) and the Investment Team at Devon for over two decades. To provide some context, over the past 23 years funds managed by Alexander Darwall (CIO) have invested in commodity related companies and banks extremely rarely. These two sectors have been structural underweights because we have long questioned the sustainability of these industries and elements of their business practices.

We believe our lengthy holding periods play an important role in formulating our view of sustainable businesses. 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 recognises 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. If such activities change Devon's risk perception of an industry or company, it may preclude an investment.

Devon is a signatory of the UN PRI and compliant with the UK Stewardship Code. In both cases, the emphasis on active engagement is closely aligned with the investment philosophy of Devon. Devon's concentrated, long term approach affords ample scope to engage with management teams on issues relating to culture, governance, and enduring sustainability.

### **3. Measurement & Engagement**

Devon consults third party ESG research and opinion on current and prospective investments. 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 third party research), 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.

### **4. Reporting & Investment Committee Sanctions**

#### ***Internal***

Companies of specific interest and details of our 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 to improve in areas of deficiency, 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***

Devon provides an annual ESG report to investors<sup>1</sup> which includes the following detail:

- Discussion and analysis of companies where the ESG Risk is considered high.
- Details of our active engagement with management teams to understand and help improve shortcomings.
- Summary of Devon's voting history, specifically highlighting where we have voted against management resolutions on the recommendation of the investment committee.

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<sup>1</sup> For investors in JEO, the ESG report will be included in the Annual Report of the Company.