

# DEVON

## Equity Management

### Engagement Policy

June 2021

#### Introduction

The Shareholder Rights Directive (SRD) II aims to promote effective stewardship and long-term decision making, by enhancing the transparency of asset manager investment and engagement strategies. This document sets out Devon Equity Management's Engagement Policy, in line with the requirements of SRD II.

Our approach to engagement is also extensively outlined in our ESG Policy, Sustainability Risk Policy, and the UK 2020 Stewardship Code Report. The former two documents can be found on the Devon Equity Management ("Devon") website.

#### Investment Approach

Devon has a fund-manager-led approach, aligned to investment considerations and designed to enhance and protect our clients' capital. Devon's concentrated, long-term approach to investment is key to Devon's investment philosophy and affords ample scope to engage with management teams on issues relating to culture, governance, and enduring sustainability.

As active fund managers it is central to our investment processes to consider each investment's ability to create, sustain and protect value. Devon expects the management and boards of the companies in its investment portfolios to be good stewards of their businesses. Devon looks for them to maximise the long-term prosperity of their company and their shareholders by applying capital in the most effective manner. Environmental, governance and social factors are recognised as material issues to consider when making investment decisions and undertaking stewardship.

Devon does not pursue an exclusionary policy whereby Devon negatively screens potential companies and thereby restrict our investment universe. However, Devon will engage with those companies where Devon feels they are falling short on their responsibilities.

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.

## Engagement and monitoring

As active investors, Devon continually monitor each investee company's management and performance across a range of measures as part of our investment process. Devon takes an evidence-based, data-driven approach to monitoring and engagement. Alongside general conferences, company specific monitoring occurs in relation to reporting events, general meetings, and in connection with news and company announcements. Devon draws on a wide range of data, including our own research and third-party research to build up a comprehensive view of performance. This enables investors to identify laggards and the specific areas to target for improvements.

Devon believes that it is essential to question and challenge companies on issues that Devon perceive may affect their value. Devon's investment team seeks to understand how governance factors impact long-term performance. Devon's approach is to try and engage proactively, rather than to react once problems emerge.

There is a continuous programme of meetings with management, chairmen and non-executive directors of investee companies. Discussions may include, but are not limited to, business strategy, acquisitions and disposals, capital raisings and financing operations, risk management, culture, board effectiveness and succession, board composition and diversity, shareholder rights, corporate responsibility, sustainability, remuneration, conflicts of interest, and environmental and social responsibility.

Our engagement activities incorporate the individual perspectives of the investment team to form a rounded opinion of each company and the issues it faces. Where Devon seeks to engage with a company over deficiencies, Devon conducts 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 Devon judges shortcomings to be within the control of the company (rather than due to a peculiarity or technical flaw in third-party research), Devon will, where possible, 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. These aims are not exhaustive and there may be other occasions in which Devon may decide to escalate its engagement.

Intervention will generally begin with a process of enhancing our understanding of the company to grasp our position. The extent to which Devon would expect to effect change will depend on the specific situation. Our aim during engagement activities is to act in the collective interest of all our clients, and thus our focus will be on issues material to the value of the company's shares.

Our mechanism for engagement varies but typically involves one of the following:

- regular one-to-one meetings with management, chairmen and non-executive directors of investee companies;
- phone calls;
- written correspondence;
- discussions with the investee company advisers and stakeholders;
- voting; and
- collective engagement with other investors.

Should initial intervention fail, Devon may consider further escalation by the mechanisms of engagement listed above, and also by:

- withholding support or voting against management; and, in extremis,
- divestment of shares.

### Proxy voting

Our corporate governance engagement and proxy voting activities involves our investment team voting as they see fit in the interests of the fund and our clients. The Investment Committee provides oversight of the portfolio management process, with independent review and challenge of the investment team's decisions and fund performance.

As active investors, Devon recognise our responsibility to make considered use of voting rights. Devon therefore evaluates voting issues on our investments and vote on them in line with our fiduciary responsibilities to clients. Devon aims to vote on all resolutions unless Devon are restricted from doing so. At the core of Devon's investment approach is finding businesses whose management have proven track records. By this very nature, therefore, Devon's fund managers must have significant confidence in the management's decision-making ability as a prerequisite for holding the investee company. It is for this reason that Devon's default position is to vote with management. Devon do however, reserve the right to vote against management if Devon believe it is our clients' best long-term interests.

For all companies where Devon have voted against a management recommendation, Devon inform them of our decision, the reason behind it and Devon invite future dialogue.