DEVON

Equity Management

Sustainability Risk Policy

Document Governance

Document owner

Name	Role
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1. Background

Following the adoption of the EU Sustainable Finance Disclosure Regulation ("SFDR"), firms are required to make a series of sustainability-related disclosures at both at entity and product-level. The SFDR applies to a 'financial market participant' which includes MiFID II firms providing the service of portfolio management, AIFMs and UCITS Managers.

As part of the entity-level obligations under Article 3(1) of the regulatory text, Devon Equity Management Limited ("Devon") is required to formulate a policy on the integration of sustainability risks in Devon's investment decision-making process. Furthermore, Devon is required to make a business decision on whether principal adverse impacts of investment decision making on sustainability factors are considered at an entity-level. This takes a 'comply or explain' approach.

As part of the product-level obligations, Devon is required to make a series of disclosures for each product and determine whether sustainability risks are deemed to be relevant within the investment process for each product and whether each product is promoted with sustainable investment as its objective. Under the SFDR, financial instruments are categorised into Article 6, 8 and 9 products, each with its own disclosure requirements. Devon must make the appropriate disclosures according to the products it offers.

2. Introduction

This policy sets out Devon's approach to integrating sustainability risks in Devon's investment decision-making process to comply with Article 3(1) of the SFDR regulatory text.

The following key terms are used within SFDR and subsequently in this document:

- *'Sustainability Risk'* – 'an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment' (Art 2(22) SFDR).
- *'Sustainability Factors'* – 'environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters' (Art 2(24) SFDR).
- *'Sustainable Investment'* – 'investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance' (Art 2(17) SFDR).
- *'Principle Adverse Impacts'* – 'negative, material, or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to

investment decisions and advice performed by the legal entity'.

- *'Comply'* – 'Devon has made the business decision that it considers the relevant sustainability factors and will be required to comply to the required disclosures detailing this fact'.
- *'Explain'* – 'Devon has made the business decision that it does not consider the relevant sustainability factors and will be required to provide a statement detailing why it is not considered'.

The investment process takes into consideration ESG and sustainability risk factors that may impact the long-term value and sustainability of investments.

However, Devon does not consider adverse impacts of its investment decisions on sustainability factors as part of its investment strategies in the manner prescribed by Article 4 of the SFDR.

Devon is supportive of the SFDR regime, to improve transparency to clients, investors, and the market, as to how financial market participants integrate consideration of the adverse impacts of their investment decisions on sustainability factors. Taking account of the firm's size and available resource and that the investment strategies offered by Devon do not include explicit sustainability investment objectives, Devon considers it would be disproportionate to comply voluntarily with the entity level PAI reporting and monitoring as outlined in Article 4 of the SFDR at this time.

Devon will revisit its decision not to report voluntarily under the PAI regime on at least a yearly basis and reserves the right to change its position in the future. Please see our "No consideration of adverse impacts of investment decisions on sustainability factors" statement for further information.

3. The Investment Process

Investment Philosophy

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.

Our Investment Process

Identifying companies with sustainable business models & returns is essential to our investment process. In acknowledgement of this, we consider many ESG issues to be indistinguishable from core business considerations.

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. Prior to investment, we also undertake extensive research typically considering factors such as ownership structure, board structure and membership, management incentives, labour relations history and climate risks. 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.

Voluntary initiatives & disclosures

Devon is a signatory of the United Nations Principles of Responsible Investment (UN PRI). The emphasis on active engagement is 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.

4. 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.

5. Reporting and 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, 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.

In addition, Devon is required to report on an annual basis for the following regulatory and voluntary initiatives:

(1) SFDR individual disclosures.

(2) UN PRI annual reporting on the 6 principles.

(3) Shareholder's Rights Directive (SRD II) disclosure detailing how the investment strategy is aligned to the performance of the investments.

6. Governance

The CCO is responsible for having adequate oversight of Devon to ensure that ESG risks are considered for, but not limited to, the following areas:

(1) The implementation of the investment policy in the prospectus, the fund rules, the instrument of incorporation or the offering document

(2) The product approval process

(3) The valuation policies

(4) The compliance manual

(5) The investment related policies and procedures

(6) The risk management policies

(7) The remuneration policy

This policy will be reviewed annually and required to be approved by the Devon Board.