



DAVY

# Davy Global Fund Management Limited

## **Responsible Investment Approach**

November 2021

## Our Approach to Responsible Investing

At Davy Global Fund Management ('DGFM'), responsible investing means evaluating the risks, impacts and opportunities faced by every company that we consider for investment. Our research focuses on material environmental, social and governance ('ESG') issues.

- ESG risks, impacts and opportunities are integrated throughout our investment process, which is founded on a proprietary definition of quality. We refer to this overarching investment approach as Quality, Quantamental, ESG ('QQE') and apply it to all investment strategies managed by DGFM.
- We have been managing client assets in a responsible manner for over 10 years and have been a signatory to the United Nations Principles for Responsible Investing ('UN PRI') since 2016.

## Why is responsible investing important?

DGFM views responsible investing as integral to how we invest and a critical aspect of our fiduciary duty to clients. This supports our objective of delivering long-term returns to our clients while contributing towards a more sustainable future for the planet and its people.

As responsible investors we believe:

- Climate change will continue to have an enormous impact on society and returns from capital markets.
- ESG information is a powerful source of non-financial data. It can be used to identify long-term risks and opportunities that traditional fundamental analysis cannot always highlight or capture. It helps us achieve a fuller understanding of the drivers of long-term returns.
- ESG data and analysis can add significant value as part of both quantitative and fundamental investment processes.
- Engagement with company management provides a valuable source of information and is an important engine of positive change. This is achieved by encouraging best practices and better management of ESG risks and opportunities to deliver sustainable long-term performance.
- Proxy voting empowers us to fulfil our fiduciary duties to clients.

## Our approach

Our investment team drives ESG integration across the firm. We believe this provides more meaningful integration than having an isolated ESG function. Oversight is provided by a senior management team led by our Chief Investment Officer and Head of Risk. We also participate actively in various industry bodies, which we view as part of our ongoing duty to act in the best interest of clients.

We aim to invest our clients' assets in quality companies and issuers that operate sustainably and address the 'triple bottom line' of planet, people and profits. This requires us to take into account ESG opportunities, impacts and risks.

We achieve this primarily through research from a responsible investing perspective. We seek to address any factors not covered by research through engagement and active voting. We encourage companies and issuers to implement best ESG practices. The ultimate aim of such engagement is to deliver better long-term performance and reduce risk while promoting a more sustainable world.

## Integrating ESG in the investment process

We integrate ESG in different ways depending on the asset class and investment strategy to ensure our analysis is both additive and meaningful. We provide a broad range of ESG-integrated approaches that can provide exclusionary, quantitative and thematic solutions, often in combination.

### Research

As active investors, our ESG research assesses opportunities and risks at a security level using sector-specific frameworks. We seek to understand practices such as climate change mitigation, labour relations, litigation and regulatory pressures that could lead to unexpected losses and impair cash flows.

Our research ties together:

- In-house fundamental research
- Company reports
- ESG research and data from independent providers such as Bloomberg, the Carbon Disclosure Project ('CDP'), Institutional Shareholder Services ('ISS'), MSCI and The Task Force on Climate-Related Financial Disclosures ('TCFD').
- Corporate engagement

The information gathered is stored in our proprietary database to enable us to monitor investments' sustainability progress in a consistent and transparent manner.

### Engagement

We engage with management teams for information and change, focusing on each company's specific ESG issues. We also encourage firms to adopt international codes and standards, such as the UN Global Compact, International Labor Organization ('ILO'), national corporate governance principles and other codes of best practice. Further information on our engagement policies can be found below.

### ESG Momentum

We recognise that companies are at different stages of maturity and that some might be unduly penalised under traditional ESG rating systems. Therefore, we consider companies' ESG momentum as well as their point-in-time rating when assessing their ESG credentials.

### Valuation

ESG factors reflect long-term business risks and opportunities. As such, we incorporate ESG performance when assessing valuation, and reward companies with strong and improving ESG profiles with a lower cost of capital.

### Fixed Income Sovereign Debt

ESG factors form a significant part of our assessment of sovereign creditworthiness. We believe poorly managed ESG exposures are a fundamental threat to a country's long-term credit quality. As such, we assess ESG risks as part of our bottom-up country analysis. We examine a country's political stability, social cohesion and reliance on fossil fuels as well as conventional financial metrics.

In assessing sovereign debt, we use country-level ESG data from providers such as the United Nations, International Monetary Fund and World Bank. From this, we have created our own model to rank almost 200 countries by overall ESG risks. We carry out a more in-depth assessment of country ESG risks during the credit analysis phase of our research.

## What we will and will not invest in

We apply ethical and ESG criteria to determine the eligibility of securities for investment. Data used for determining the eligibility of securities is sourced from independent data providers such as MSCI, Bloomberg, ISS and CDP. It is automatically uploaded and hard coded into our investment systems. This prevents inadvertent ('passive') breaches by the investment team and is monitored in real-time by our portfolio risk management team. Client specific objectives can be applied within segregated mandates.

Our ethical and ESG criteria and indicators are reviewed annually to ensure they are evolving and our responses reflect appropriate thinking on critical and emerging issues. We incorporate these issues into our investment strategies under the categories Products & Services and Behaviors & Conduct, as the tables below illustrate.

**Table 1: Products & Services**

Products & Services	Issue	Criteria	Revenue Threshold	
All Strategies	Cluster munitions	■ Manufacture of cluster munitions	0%	
	Landmines	■ Manufacture of landmines	0%	
	Civilian firearms	■ Civilian firearms (Assault & Non-Assault Weapons)	0%	
	Electricity generation	Exclude electricity companies		
		■ With expansion plans that would increase their environmental impact(s) and/or are contrary to the Paris accords		
	Thermal coal	■ Mining and sale of thermal coal	<10%	
	Abortifacients	■ Manufacture or sale of abortifacients	0%	
	Adult entertainment	■ Provide pornographic, harmful or violent materials	0%	
	Alcohol	■ Production/distribution of alcoholic beverages	<10%	
	ESG Equity & Low Carbon Equity	Armaments	■ Manufacture/ sale of weapons, weapons systems & platforms, including products or services related to them	<5%
Gambling		■ Gambling; casinos and betting shops	<5%	
High interest rate lending		■ Home-collected credit ('doorstep lending') or unsecured short-term loans ('payday loans') with triple-digit or close to triple-digit annualized percentage rates	0%	
Tobacco		■ Manufacture/ sale of tobacco products	<5%	
Low Carbon Equity	Fossil fuels	■ Ownership of geological reserves of oil/gas/coal	0%	
		■ Exploration, extraction & burning	0%	
		■ Any revenue from exploration and production in areas of high environmental sensitivity, including the Arctic"	0%	

Source: Davy Global Fund Management, 2021

**Table 2: Behaviours & Conduct**

Products & Services	Issue	Criteria	Threshold
All Strategies	<b>Environment</b>		
	Climate change	<ul style="list-style-type: none"> <li>Business strategy business strategy does not address climate change</li> </ul>	
	<b>Social</b>		
	Human rights	<ul style="list-style-type: none"> <li>Involved in controversies related to human rights abuses which includes a firms impact on the communities in which it does business. The factors used to assess this include -                             <ul style="list-style-type: none"> <li>Exposure to controversial regimes</li> <li>Freedom of expression</li> <li>Censorship</li> <li>Adverse impact on a community</li> <li>Other human rights abuses</li> </ul> </li> </ul>	Severe
	Fossil fuels	<ul style="list-style-type: none"> <li>Involved in controversies related to labour rights abuses. The factors used to assess this include -                             <ul style="list-style-type: none"> <li>Employee relations</li> <li>Labour-management relations</li> <li>Health &amp; safety</li> <li>Collective bargaining &amp; unions</li> <li>Discrimination</li> <li>Workforce diversity</li> <li>Supply chain</li> <li>Workforce diversity</li> <li>Management of supply chain</li> <li>Employee relation standards</li> <li>Child labour</li> <li>History of involvement in child labour-related legal cases</li> <li>Widespread or egregious instances of child labour</li> <li>Resistance to improved practices</li> <li>Criticism by NGOs and/or other third party observers</li> </ul> </li> </ul>	Severe
<b>Governance</b>			
Compliance & ethics	<ul style="list-style-type: none"> <li>With a regulatory breach or a pattern of significant/persistent breaches</li> <li>Companies that appear on 'black lists'</li> </ul>	Sanction & 'Black' Lists EU, OECD US OFAC US DOD	

Source: Davy Global Fund Management, 2021

If a security is de-rated and becomes unacceptable for our strategies to own, the investment team has three months to divest the holding. If this does not happen within three months, the passive breach is redefined as an active breach. Monitoring and oversight of adherence is provided by the portfolio risk management team.

## Reporting

Measuring and reporting the impact of our portfolios is an important element of validating the sustainability of our investment process. We monitor several key sustainability indicators covering environmental, social and governance metrics. We use environmental indicators that align with TCFD recommendations. We publish our performance against these indicators in client reports which can be made available upon request.

## Memberships & Affiliations

In line with the fourth and fifth principles of the UN PRI, we advocate sustainable investing within our industry and seek to collaborate with peers to achieve this. Our current projects include:

**UN PRI** promotes the integration of ESG into investment decision making. We have been a signatory since 2016.

**Irish Sustainable Investment Forum** is a national platform that advances responsible investing across all asset classes. We are a founding member.

**Forum for Sustainable and Responsible Investment** is a US-based association that promotes sustainable, responsible and impact investing. We have been a member since 2019.

**Chartered Financial Analyst Asset Manager Code** outlines the firm's and the investment team's ethical and professional responsibilities to clients.

**Intentional Endowment Network** is the leading network for endowment fiduciaries, senior administrators, CIOs and other decision-makers to promote an economy that is more equitable, low carbon and regenerative.

**Carbon Disclosure Project** is a global disclosure system used by investors, firms, cities, states and regions to manage their environmental impact. We are a member of the project.

**Task Force on Climate-Related Financial Disclosures** develops recommendations for climate-related disclosures to promote more informed understanding and investment decisions. Its key areas of focus are the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. We are a supporter of TCFD.

## Engagement and Proxy Voting

We have a long-term investment horizon and shareholder engagement is an important part of our investing process. Engagement supports our research, helps drive better management of ESG risks and opportunities and ensures that companies maintain high standards of corporate behaviour. Our engagement activity also helps us satisfy the UN PRI, to which we have been a signatory since 2016.

Our long view allows us to take an active approach to engagement. We aim to hold constructive dialogue with companies as we build relationships over time. This may result in interaction with management at different levels depending on the nature of the objectives. Our engagement activities feed into our broader research efforts supporting our quantitative and fundamental research.

### Dialogue with investee companies

Investment decision-makers lead our engagement activity as we believe this has the greatest chance of making meaningful change. We first identify an ESG issue that represents a material long-term business risk or opportunity and the companies most exposed to the issue. We look to set objective goals for companies and, depending on the complexity of the issue, may set incremental milestones for improving the management of this issue. In the event of an unsatisfactory outcome, we divest the stock.

### Collaborative engagement

Collaborative engagement is where we act with other asset managers or asset owners on specific issues to:

- ensure a consistent message
- use scale to amplify our message and improve corporate access
- share ideas on driving positive change with like-minded peers

The most common form of cooperation is shareholder resolutions where we take an active role in voting.

## Proxy Voting

We believe proxy voting is part of our fiduciary duty to our clients and, as such, is a key component of our active investment approach. It helps encourage companies to live up to the goals they have set.

The investment team votes after assessing sustainability research guidelines from ISS and MSCI ESG. These guidelines promote voting in line with sustainability best practice, such as improved disclosure, strong stewardship of the environment, fair labour practices, non-discrimination and the protection of human rights.

The ISS guidelines are themselves informed by initiatives such as the UN PRI and UN Global Compact and Global Reporting Initiative and are updated annually.

Engagement and proxy voting are closely aligned. Information gained through company dialogue supports our voting decisions and, in turn, proxy voting agenda items may become the subject of engagement activity.

Oversight of our proxy voting process is provided by our Voting Oversight Group, which identifies and mitigates any conflicts of interest and reviews proxy voting processes and outcomes. Our proxy voting record can be viewed on our website ([www.davygfm.com](http://www.davygfm.com)) and is updated semi-annually.

## Conflicts of Interest

We seek to act in the best interests of our clients, while recognising conflicts of interest may occasionally occur. A robust group wide conflicts of interest policy is in place and is available on the company website. It requires the firm and its employees to act honestly, fairly and professionally in accordance with the best interest of its clients.

In line with its regulatory requirements, the firm takes all reasonable steps to prevent conflicts of interests that arise in the course of providing services within the group, between the firm and third parties, between the firm and its clients and/or between one client and another according to its policy. The firm has several additional regulatory obligations, specifically under UCITS and AIFM regulations in relation to the identification, prevention and management of potential and existing conflicts of interests to its clients.

Further detail on DGFM's approach to managing Conflicts of Interest can be found [HERE](#).

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## Contact DGFM

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