DEVON
FUNDS.

Devon
Responsible Investment Policy

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PART 1- INTRODUCTION AND APPROACH

1.1. Introduction

Devon Funds Management Limited ("Devon") is an independent investment management business that specialises in building portfolios for our clients that are comprised of companies listed on the New Zealand and Australian stock exchanges.

Devon manages in excess of $1.9 billion on behalf of a diverse range of leading New Zealand clients, including the New Zealand Superannuation Fund, Community Trusts, charities, KiwiSaver schemes, corporates pension schemes and individual investors.

Our competitive advantage is based on three key factors: our business structure, our people and our consistency.

We take pride in the fact that Devon is independent and wholly owned by its employees and directors, who maintain significant personal holdings in the Devon Funds, ensuring our investment team's decisions and our clients' interests are aligned at all times. We can only invest in Australian and New Zealand equities via our own Funds to ensure there are no conflicts of interest between clients and staff. It also ensures that employees have the same investment experience and outcome as clients.

Our people are a key competitive advantage. We have one of the most experienced investment teams operating in New Zealand. We have deep experience across all the major sectors in New Zealand and Australia and this enables high levels of research conviction to be achieved. Our investment process is targeted towards bottom-up fundamental analysis driven by primary research. We also recognise that in order to best understand the sectors under coverage that our analysts must not only travel regularly across New Zealand and Australia but also further abroad. All research, financial analysis and valuation work is completed internally- we do not rely on external or broker research.

We are consistent. We have a well-established investment and research process with a strong long-term track record for investors. Our investment style is focused on constructing portfolios of New Zealand and Australian shares that are high quality businesses operating in attractive industry structures with strong free cash flows. We do not and have not, deviated from this approach.

1.2. Our Values

We believe that, on your behalf, we have an obligation to ensure that the businesses we invest in conduct themselves in accordance with the highest governance standards. Where these standards are not being demonstrated we will actively engage with the company to seek improvement. In our view, better returns can be achieved if the businesses we invest in are good corporate citizens who look after the interests of all stakeholders and operate in a sustainable manner.

We believe that Environmental, Social and Governance (ESG) factors, including climate change, are a key focus for governments, regulators, consumers and investors. We consider that ESG factors present financial risks as well as significant opportunities for companies both in the short-term and in the long-term.

At Devon our policies have evolved substantially over the years to ensure that our own corporate standards are consistent with the expectations that we have of the companies in which we invest. Our Toitū Envirocare Gold Certification is an important example of this commitment.

To achieve the Toitū certification, we demonstrated that we:

- Have set objectives and targets for driving improvement and have programmes in place to meet those targets;
- Have developed, implemented and tested environmental emergency plans;
- Have identified and evaluated our significant environmental issues arising from activities, products and services;
- are actively monitoring our ongoing compliance with New Zealand legislation and are ensuring we are aware of any changes to obligations;
- Have produced an environmental policy statement;
- Understand the scope of our Environmental Management System (EMS);
- Exhibit no non-compliances with New Zealand's applicable health and safety and environmental legislation.

We are also a member of the Responsible Investment Association of Australasia (RIAA). RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. It has close to 500 members and is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. As a member of RIAA, we commit to promoting, advocating for, and supporting approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy. The Devon Sustainability Fund has obtained RIAA certification.

We are also a founding member of the New Zealand Corporate Governance Forum which has been established to promote globally recognised governance standards in New Zealand. Our commitment to responsible investing is further bolstered by our involvement with Climate Action 100+. As a signatory to this initiative we are currently engaging with Woolworths with the objective of engaging on decarbonisation and just transition detail, capital expenditure detail, and remuneration links.

Additionally, we are a signatory to the United Nations supported Principles for Responsible Investment (PRI). The PRI provides global principles and a framework to help us integrate the consideration of Environmental, Social and Governance (ESG) issues into our investment decision-making and portfolio construction framework.

As part of this process we report annually to the PRI on our adherence to these policies. Our current PRI rating in the most recent reporting period was:

Strategy & Governance - **A+**
Listed Equity- Incorporation - **A+**
Listed Equity- Active Ownership - **A**

PART 2 - INVESTMENT PROCESS

2.1. Investment Philosophy

Our investment philosophy is to generate superior risk-adjusted returns over the long term for our clients by investing in high quality businesses trading at a discount to fair value. We believe that these businesses can be acquired at a discount to fair value due to market inefficiencies and the volatility of short-term prices. We define fair value as the present value of the future free cash flows of the business to capital providers and we define quality businesses as those that are able to sustain high returns on capital; in particular, returns which sustainably exceed the company's cost of capital. We assess fair value and the quality of a business through our in-depth fundamental research process, which assesses the strength and sustainability of the business model, the attractiveness of the industry, the quality of the historical financial statements and the ability of the company to sustainably generate free cash flow. We also assess ESG factors, and the quality of management. Our investment decisions are based on primary sources of information, and regular access to executive management and industry contacts is an integral part of our investment process.

2.2. Investment Process

Research:
We filter and identify investment opportunities through detailed industry and company analysis. Our investment decisions are based on independent sources of information. Regular access to executive management and industry contacts are an integral part of our investment process. We use research models to value each company we wish to invest in, subjecting them to rigorous analysis by focusing on their earnings, capital structure, free cash flow generation and growth prospects.

Peer Review:
Our investment team conducts a review of each business to assess its industry structure, management quality, governance structures, competitive position and growth plans. Peer reviews are then conducted to ensure we use the full experience of our team to identify what we believe are the best possible investment opportunities.

Portfolio Construction:
An important part of our process is our formal weekly Investment Committee Meeting. Within this forum the investment team discuss new investment ideas, review existing holdings and conduct a thorough review of the risks facing our investments. This process is also integral to the construction of our portfolios with the best of those opportunities identified in the research

process being appropriately represented.

Risk analysis is extremely important at this stage. The most important aspect of risk in our view is the quality of the balance sheet of individual stock holdings. We closely monitor portfolio companies' debt to operating free cash flow, and interest cover metrics, relative to debt covenants.

We also actively consider the valuation risk in the portfolio. This is done by assessing the fundamentals of each individual stock, and the contribution to overall portfolio valuation metrics, on an absolute basis.

Lastly, the variance of the portfolio to the benchmark is considered. We monitor whether the portfolio is appropriately diversified in terms of companies, industries and sectors, relative to the benchmark. We monitor individual stock contribution to tracking error, and that overall ex ante tracking error is in line with our expectations and the mandate. We monitor portfolio style by assessing the fundamentals of the portfolio relative to the benchmark to identify any deviation from our intended investment style.

We are also very conscious of liquidity and prefer companies that are large and liquid. We utilise external risk systems to assist with the above processes. These systems are useful for assessing both the current portfolio, and the impact of any intended stock changes.

Portfolios are then constructed in accordance with their investment guidelines.

The Devon investment process is summarised in the following representation:

This policy does not extend to funds externally managed outside of Devon Funds Management.

PART 3 - RESPONSIBLE INVESTMENT

3.1. Overview

We apply two Responsible Investment strategies when managing client funds - (1) ESG integration and (2) active ownership. We have always included analysis of ESG issues in our investment process. Applying an ESG review to each business that we research is a distinct part of our fundamental process. ESG issues may impact on the future cash flows we forecast for a business and the value we attach to those cash flows. We believe we have a fiduciary duty to our clients to actively engage on ESG issues with all companies that we hold in our portfolios and we vote on all motions. In situations where we believe that strong ESG standards are not being demonstrated, we will actively engage with the company to seek improvement. If the company does not resolve the issue and we believe that it may impact on the value of our holding, we may exit the stock.

Following the detailed analysis of a business, we rate the potential investment on an ESG score. We rank each business on the components of Environmental, Social & Governance matters. Our source data for the ranking includes our own views, media reports, regulatory reviews, government reports, annual reports and third party ESG research vendors - Devon's provider is currently MSCI. For any businesses that we hold ESG concerns over, we evaluate whether to hold the position and engage with the company or to exit the position. We engage frequently with the companies that we own and those that we are analysing.

If and when derivative products are used within the funds, these products are also covered by our Responsible Investment Policy. This is to ensure that there is no likelihood of the fund gaining economic exposure to a company via derivatives that would have otherwise been excluded from the portfolio.

3.2. Investment Beliefs

Devon's approach to ESG considerations is neither a recent, nor a superficial part of the process. As a responsible corporate citizen, with a fiduciary duty to our clients, and as a signatory to the Principles of Responsible Investing (PRI), Devon has an obligation to consider all types of nonfinancial risks and opportunities, and we believe our ESG integration strategy strengthens our investment decisions.

1. Devon believes that managing ESG considerations will lead to increased shareholder value
2. Devon believes that strong corporate governance is often correlated with strong environmental and social company outcomes.
3. Devon believes that a company's ESG risks and opportunities should be identified and measured in order to appropriately value an investment
4. Devon believes in engagement on ESG matters as a critical part of assessing and monitoring and investment
5. Devon's investment beliefs are based on several years of academic evidence and is consistent with our own ESG process.

3.3. ESG Integration

The consideration of ESG factors is an essential part of Devon's investment process. ESG screens are included in the pre-investment phase of an investment to ensure investment companies align with our stated objectives. We constantly monitor any changes with regards to ESG factors to ensure retention (or divestment) of investments.

Social Factors:

Devon incorporates Social factors into our decision making in order to understand all relevant long-term risks associated with the companies that we own and are analysing. The following Social factors broadly represent what will be considered:

- Human capital-e.g. labour management, health and safety, supply chain and labour standards
- Community relations
- Animal welfare
- Product liability- e.g. product safety and quality, chemical safety, privacy and data security, health and demographic risk
- Controversial sourcing
- Diversity

Governance Factors:

Devon incorporates Governance factors into our decision making in order to understand all relevant long-term risks associated with the companies that we own and are analysing. The following Governance factors broadly represent what will be considered:

- Corporate governance - e.g. board, pay, ownership, accounting
- Controversial investments
- Corporate behaviour- e.g. business ethics, anti-competitive practices, corruption and instability, tax transparency

Environment Factors:

Devon incorporates Environmental factors into our decision making in order to understand all relevant long-term risks associated with the companies that we own and are analysing. The following Environmental factors broadly represent what will be considered:

- Climate change - e.g. carbon emissions, climate change
- Natural capital- e.g. water stress, biodiversity and land use, raw material sourcing
- Pollution and waste - e.g. toxic emissions and waste, packaging material and waste, electronic waste
- Environmental opportunities - e.g. clean technology, green building, renewable energy

3.4. Climate Change

Devon was part of a collective that responded to the New Zealand governments proposal to implement compulsory TCFD reporting. We jointly submitted our recommendations to the proposal to improve disclosures of climate-related financial risks in the New Zealand Capital Markets. As part of this effort, we individually engaged with the management of approximately 10 NZX50 companies and informed them of our expectations as shareholders to have them report to TCFD standards. And we have continued to track their progress by regularly engaging with the management of these companies.

In 2023 we will be releasing our second iteration of our Disclosure Survey which will question companies listed on the NZX50 Index regarding the way in which ESG issues are considered within KPI's and reflected in remuneration packages for executives.

Devon incorporates Environmental factors into our decision making in order to understand all relevant long-term risks associated with the companies that we own and are analysing. One of these factors that will be considered is climate change - e.g. rising sea levels, extreme weather patterns' impact on agriculture.

The climate-related risks and opportunities we have identified over the short, medium and long term include:

- Transition into a low carbon economy: Exclusion of companies involved in extraction of fossil fuel in certain products.
- Electrification of vehicle fleets: Overweight in renewable electricity generation companies.
- Incorporate sea level rises in scenario analysis and their impact on infrastructure assets.
- Study impact to agriculture assets to temperature rises and extreme weather patterns due to climate change.
- Carbon pricing: impact on carbon emitting company's profitability.

The associated timescales are as follows:

- Transition to a low carbon economy: In line with New Zealand's zero carbon legislation (2030 and 2050) and its National Determined Contributions to the Paris Climate Accord (2030).
- Electrification of vehicle fleets: Conducting scenario analysis, looking at different adoption rates at 2025, 2030 and 2050.
- Incorporate sea level rises in scenario analysis and their impact on infrastructure assets: 2050 and beyond.
- Study impact to agriculture assets from temperature rises and extreme weather patterns due to climate change: current.

The risks and opportunities associated with climate change will impact companies differently. We make initial assessments using the following methods:

- Business Involvement Screening Research (BISR) screens to identify high risk business activities the companies are involved in and we will exclude companies that have material portion of their earnings tied to such activities.
- We conduct scenario analysis on impact to high risk assets and use the findings to form the initial engagement process with management.
- We assess the financing risk to companies that are materially exposed to business activities that may contain climate related risks and opportunities,
- We have started to use alternative data to conduct scenario analysis (i.e. sea level rise modelling, climate change modelling).

We perform cashflow based analysis to determine the impact to a company's valuation from climate related risk and opportunities. To the extent that we cannot determine the cashflow impact from climate related risks and opportunities, we may incorporate such risks or opportunities into the discount rate.

We also incorporate climate related risks and opportunities into an internal ESG scoring system which is an integral part of the investment research process.

3.5. Modern Slavery

We have always considered broader Human Capital issues within our ESG framework. More recently much of this has been defined as Modern Slavery. We capture this analysis under Social factors. We are also an active member of the RIAA Human Rights Working Group. We maintain a commitment to engage with companies operating in conflict zones or in countries where human rights are not respected.

MSCI evaluates all companies on a social score and we supplement this with our own independent analysis of issues including Labour Management, Health and Safety and Labour Standards. We monitor all portfolio companies, and those under consideration for investment, for Modern Slavery risks. We include questions on Human Capital in our regular meetings with company management teams and the review of company documents. We also review all notifications published by the Australian regulatory bodies such as The Modern Slavery Register Australia. Any lack of compliance by the companies that we are reviewing would result in a very negative appraisal.

Part 4 - STEWARDSHIP POLICY

Stewardship aims to promote the long-term success of companies in a way that ultimately benefits all stakeholders including shareholders. We believe that a commitment to effective corporate governance and an adherence to the Stewardship Code is of significant benefit not only to our investments and our investors but also to the wider economy. Stewardship includes voting as well as monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance.

4.1. Engagement Policy

Direct engagement with companies and their stakeholders is an important part of Devon's investment process, and a key driver of our approach to Responsible Investment.

We use several pre-investment tools for ESG engagement to ensure adequate ESG due diligence is achieved, this includes MSCI ESG research.

Engagement is typically with the CEO, CFO and other senior management and may take the form of face-to-face meetings, phone conversations or written communication. This engagement provides us with insights into the quality of a company's management, strategy, market environment, operations, governance structure and their approach to ESG issues. Additionally, we actively engage with Corporate Boards either to address particular issues or to engage on various matters as the custodians of our equity investments. In this regard we often engage proactively with Board's with respect to their construction, their gender diversity, member contribution and tenure.

We collaborate with other fund managers through the New Zealand Corporate Governance Forum, of which we are a founding member, where we believe a collaborative approach will be in the best interests of our clients and achieve the greatest result.

4.2. Proxy Voting

We are advocates for strong corporate governance structures, shareholder rights, and transparency. We vote all proxies on behalf of clients, unless the client has a preference to vote these proxies themselves. The objective in voting is to support proposals and director nominees that maximize the value of a portfolio's investments over the long term. Factors considered include conflicts of interest, transparency, ESG issues and extraordinary meetings.

Each proposal must be evaluated on its merits, based on the particular facts and circumstances as presented. Our practice seeks to ensure that proxy voting decisions are suitable for individual portfolios. For most proxy proposals, the evaluation will result in the same position being taken across all portfolios.

Clients of Devon's Sustainability Fund have access to all their relevant voting outcomes through the Devon Funds website (https://devonfunds.co.nz/sustainability-fund)

Part 5 - EXCLUSIONS POLICY

Whilst Devon does not apply a standard screening or exclusions policy across all portfolios, certain client mandates may require more specific company or sector exclusions from their portfolios. Devon engages with MCSI and other third-party providers to determine company and sector definitions.
The below exclusions have been established in line with member requests and are therefore specific to Devon's Sustainability Fund.

Devon does not exclude any industry on principle. All our positions on exclusions are the result of an extensive analysis of environmental and social impacts. For certain sectors, this analysis may lead to the exclusion of an entire sector.

5.1. Energy

Fossil Fuels

We consider the growth projections of fossil fuel companies to be incompatible with international climate change mitigation objectives. As the fossil fuel exploration and production industry turns toward riskier extraction techniques (e.g. deep offshore, unconventional resources), its environmental and social risk profile is heightened.

Continued oil and coal use over the medium-to-long-term is at odds with the energy transition, so we do not consider companies with substantial revenues from oil or coal eligible for investment. This applies to direct involvement in oil and coal through extraction, processing, refining, and trading. It also applies to companies that sell equipment dedicated to these processes.

Beyond extraction, electricity producers are the main coal consumers worldwide while low carbon electricity sources are becoming more and more cost-competitive. As a result, electricity producers with a high share of coal in their power generation mix (and consequently, ahigh carbon footprint) are also excluded from our investments.

Natural gas is more complex. It can serve as a transition fuel under certain circumstances, but near-complete decarbonization will be necessary over the long term to limit warming to <2°C (in line with the Paris Agreement). While new gas infrastructure may help to lower emissions over the coming years, it may also lead to lock-in effects over time, extending fossil fuel use over the long-term.

Furthermore, the gas supply chain, especially in the context of unconventional extraction, is particularly risky and difficult to manage, with the potential for negative impacts on local environments and high fugitive greenhouse gas emissions, which can negate its climate benefit.

For companies involved in fossil fuel extraction, processing, refining, and trading, exclusion applies to companies with:

- >10% of revenues from coal or oil, including unconventional oil,
- >10% of revenues from unconventional gas.

For companies that produce dedicated equipment/services for the fossil fuel sector, exclusionapplies to companies with >50% of revenues from these equipment/services.

For companies involved in electricity production(>10% of sales related to electricity production), exclusion applies to companies with ageneration mix dominated by coal

Nuclear Power

Nuclear power has a CO_2 footprint equivalent to that of renewable energies because fission reactions emit no greenhouse gases. Nonetheless, it is an energy source with risks of its own:

1. The risk of nuclear accidents. Events like Chernobyl and Fukushima have demonstrated that nuclear accidents can take place.

2. Management of nuclear waste. Even after reprocessing, by-products of fission result in radioactive waste that remain dangerous for hundreds of thousands of years.

These risks mean that nuclear power is not appropriate in many contexts. Political stability is essential, a high level of technical know-how, and strong, independent nuclear regulatory bodies are essential.

We apply a case-by-case analysis of the strategies pursued by actors within the nuclear industry, especially when they are present in countries where the industry is insufficiently monitored.

5.2. Health and Addiction

Tobacco

The tobacco epidemic is one of the biggest and most serious global public health threats - its effects counteracting the advances in health made in the past. The World Health Organisation estimates that roughly 12% of all deaths among adults over the age of 30 are due to tobacco.

In 2005, the WHO Framework Convention on Tobacco Control (WHO FCTC) came into force. Its main objective is to protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure. Ratified by 174 countries covering 90% of the world's population, the WHO FCTC is a legally binding treaty by which these countries commit to developing and implementing a series of evidence-based tobacco control measures to regulate the tobacco industry, reduce demand for tobacco and provide alternatives to those involved in growing and producing tobacco.

Exclusion applies to companies with >0% sales from tobacco production

Alcohol

Alcohol-producing and retailing companies face significant risk related to harmful social effects stemming from their products. The World Health Organisation suggests that alcohol overuse can lead to a wide range of acute and chronic health effects.

However, we consider that certain groups are the most exposed to risks of overuse and negative health effects: consumers of companies' low-end product ranges, consumers in areas where the company has large operations but is subject to limited regulation, and/or young people. We believe that companies with risk management frameworks in place to limit the risks associated with the alcohol use of these consumer groups may be able to substantially reduce their negative social impacts and risk exposure.

Since industry self-regulation is the main force driving mitigation of social risk for companies involved in alcohol production (i.e. large companies mainly act together within industry initiatives to tackle this issue), companies have a major responsibility to promote responsible marketing and distribution practices, tailored to their product ranges and markets.

Exclusion applies to companies with >10% sales from alcohol manufacturing

Gambling

Gambling companies' business creates substantial social risks, namely addiction and over-indebtedness. We do not consider any company exposed to gambling as having sufficient policies to properly address the social risks linked to their activities.

Exclusion applies to companies with >10% sales derived from gambling.

5.3. Fundamental Rights

Armaments

In our view, weapons can play a role in both war and peace; they are not excluded on principle. But, although weapons can contribute to peacekeeping, they must not be used capriciously or against civilians.

For this reason, based on international conventions, companies that produce controversial weapons, cluster munitions, or anti-personnel mines are systematically excluded. For other types of weapons, we consider that today, no company in the industry can guarantee that their products will not be exported or re-exported to high-risk, undemocratic countries, where they may be used against civilians.

Exclusion applies to companies with:
- >0% sales derived from armaments
- >0% sales of weapons banned by international conventions and other controversial weapons.

Adult Entertainment

Companies involved in producing and retailing adult entertainment are exposed to high social risk, especially related to human trafficking. We have not identified any companies involved in this industry within our investment universe. Nevertheless, we consider that no company in the sector has developed sufficient policies to properly address its social risks.

Exclusion applies to companies with >10% sales derived from adult entertainment.

Other Topics

For abortion, contraception, embryonic stem cells and animal testing, Devon's ESG analysis focuses on key risks linked to each company's products and processes.

5.4. Animal Welfare

Whaling

In 1946 New Zealand was one of the founding members of the International Whaling Commission (IWC), established to manage the world's whale resources and is now considered to be one of the staunchest advocates of whale conservation. Decades of poorly regulated hunting has reduced populations of most of the large whales to low, and in some cases critical levels.

Exclusion applies to any companies involved in Whaling activities

5.5. Governance and International Conventions

UN Global Compact's principles and/or OECD guidelines

Beyond involvement in controversial activities, companies in serious breach of UN Global Compact's principles and/or OECD guidelines for international companies are also excluded on the grounds of problematic practices around human rights, labour rights, environment, business ethics and corruption issues.

Exclusion applies to any companies on human rights watchlists as stated by MSCI

5.6. Divestment timeframe

If a portfolio company, for whatever reason, breaches our exclusions policy, we have 14 days to exit our position.

Slade Robertson, Managing Director
Devon Funds Management