September 2023

IQ EQ Fund Management (Ireland) Limited

Responsible Investing Approach

Introduction

IQ EQ Fund Management (Ireland) Limited ('IQ-EQ' or the 'Firm') is part of IQ-EQ Group, a leading investor services group employing over 4,000 people across 24 jurisdictions worldwide.

As a forward-looking business, sustainability is integral to the strategy and operations of IQ-EQ Group. This sustainability strategy is based upon four key pillars – people, clients, planet, and governance, which, we believe are fundamental to the longevity of our business. IQ-EQ Group committed to the UN Global Compact in October 2021 and the Science Based Targets initiative in June 2023 with the aim to be a net-zero business by 2035. As a recognition of our ongoing commitment to responsible investment, the organisation received a 'Gold Medal' for our 2023 EcoVadis ESG and sustainability assessment. This is an improvement from 'Bronze Medal' in 2022 and places the organisation amongst the top 5% of all companies rated by EcoVadis. Further details on our sustainability strategy and goals are outlined in our Sustainability Report.

IQ EQ Fund Management (Ireland) Limited has been managing client assets in a responsible manner for over 10 years and has been a signatory to the Principles for Responsible Investing ('PRI') as an investment manager since 2016. IQ-EQ Group also signed up to the PRI as a service provider in 2021, to further highlight our commitment to responsible investment.

Our approach to responsible investing

IQ-EQ acts as investment manager across a broad range of asset classes including Equities, Fixed Income, Real Estate, Private Equity, Private Credit, Infrastructure and Fund of Funds.

We view Environmental, Social and Governance ('ESG') factors as an important input to our investment process. These factors help to highlight sustainability risks and opportunities, which can be integral to investment decision-making and outcomes. We integrate ESG in different ways depending on the asset class and investment strategy, and it is led by our in-house investment team.

For Equities and Fixed Income, our ESG integrated approach includes qualitative research, engagement, exclusionary, quantitative and thematic solutions, often in combination. Where we look to integrate sustainability in Real Estate investments we engage with relevant stakeholders to do so. For Fund of Funds, ESG criteria may be included in the review process prior to the appointment of asset managers. We seek to review these criteria, where applicable, on a bi-annual basis to understand and monitor any changes in the ESG processes of the underlying manager. Further information by asset class is included below. At present, our responsible investment approach is applicable to circa 65% of assets under management[1].

Why is responsible investing important?

IQ-EQ 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 managers provides a valuable source of information and is an important engine of positive change. This is achieved by encouraging best practice and better management of ESG risks and opportunities to deliver sustainable long-term performance
- Proxy voting empowers us to fulfil our fiduciary duties to our clients

Integrating ESG in the investment process by Asset Class

Passive Equity

We act as investment manager on a range of thematic ETFs. These include ETFs which integrate ESG and sustainability across a range of Article 8 and 9 [2] compliant indices. ESG is integrated both in the inclusion of sustainability risk in the consideration of the index proposed to be used by a new ETF and stewardship activities. Such activities include voting on portfolio company shareholder resolutions and providing oversight on sustainability risk and divestments on exclusion or sustainability grounds.

Active Equity

Our investment team leads ESG integration in the investment process for a number of active, fundamental equity strategies (each an "Active Equity Strategy"), supported by a dedicated in-house ESG Research Analyst. Oversight is provided by a senior management team led by our Chief Investment Officer and Designated Person for Fund Risk. In addition to ESG integration in the investment process, we may also include exclusionary or ESG thematic solutions, often in combination.

Initial investment

The team focuses on researching the highest quality companies with attractive ESG characteristics to fulfil the investment objectives of each such Active Equity Strategy we manage. ESG risk management is integrated throughout our investment process, which is based on a proprietary definition of quality. ESG factors are included in the initial screening of the investment universe, removing companies which violate ESG exclusions (see Table 1).

Every investment in these Active Equity Strategies is subject to an internal ESG review as part of the investment review process. The initial review is focused on identifying sustainability risk which could lead to unexpected losses and impair cash flows. For this, the investment team relies on numerous inputs including third-party research and data, company specific reports, industry reports and our internal Scorecard. The Scorecard is an aggregation of the Principal Adverse Impact ('PAI') indicators and others, which help establish whether a company is leading or lagging in ESG practices. Our sustainability risk review focus on the following factors or controversies.

[1] Reference to total assets under management of IQ-EQ Fund Management (Ireland) and including active equity, passive equity, active fixed income, real estate and fund of funds asset classes as at 31/03/2023.

[2] Article 8 and 9 refers to the relevant articles of REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector

Table 1 ESG Factors

Environmental	Companies are evaluated based on climate change and/or environmental degradation risks, environmental impact and the inclusion of climate change in business' strategy. Adverse indicators of interest include emissions reporting and target setting. We also evaluate any associations or involvement with controversies pertaining to biodiversity and land management, climate change, energy usage, supply chain management, water stress, toxic emissions & waste, and operational waste. Additional inputs from third parties such as NGOs, TCFD or CDP may also inform the evaluation of environmental risk.
Social	Companies are evaluated on diversity & inclusion, health & safety, involvement or association with controversies related to labour rights abuses or human rights abuses, which includes a firm's impact on the communities in which it does business. Adverse indicators and controversies reviewed cover the following factors: unadjusted gender pay gap; rate of accidents; incidents of discrimination; controversial regimes; freedom of expression and censorship; adverse impact on a community; employee relations; labour-management relations; health and safety; collective bargaining/unions; discrimination; workforce diversity; supply chains and supply chain management; employee relation standards; child labour; history of involvement with child labour-related legal cases; resistance to improved practices; and criticisms by NGOs or other third parties.
Governance	Companies are evaluated on their corporate behaviour, which includes factors tracking bribery and fraud, controversial investments, governance structures, and regulatory pressures. Adverse indicators considered also include board gender composition and sustainability/ESG-linked remuneration policies. We consider a history of regulatory breaches as well as 'blacklists,' such as from sanctions.

A third-party provider rates ESG risks based on the number and frequency of controversies. If the rating is a 'red flag', we will not invest. An 'orange flag' signals an area of concern, which requires further research, investigation and perhaps engagement for the Portfolio Manager to gain comfort on prior to investment.

In addition to this risk approach, we also seek to identify and invest in companies with best-in-class ESG practices. The metrics we emphasise are included on our internal Scorecard. Examples of these practices may include the following:

- UN Global Compact Signatories, signifying an importance placed on Human Rights, Labour, Environment and Anti-corruption.
- Credible and meaningful carbon emission reduction targets and disclosures.
- Disclosing and improving on diversity metrics, such as women on the board.
- Incentivizing senior stakeholders to prioritize sustainability through compensation-linked measures.

We understand that there is no one-size-fits-all approach when it comes to reviewing sustainability practices, and as such, we weight each company review by materiality and impact in their sector.
We also 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. While each E, S & G pillar is reviewed for sustainability risk, the investment team also considers the intersectionality that exists between pillars where applicable. This gives a more-holistic insight into a company's risk profile and may better guide engagement and ESG improvement.

Finally, we may conduct 'deep dive' reviews on sustainability topics to understand the impact on a new or incumbent investment. Recent examples include a review of Palm Oil and Child Labour Practices in the Cacao Industry.

Valuation

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

Once an attractive company is identified, a rigorous bottom-up assessment of its business model, addressable market and peers is made. Financial outputs from this analysis, including revenues, margins, growth, and cash flows, are used to build a DCF model to value the business and to derive base, bull, and bear target price ranges.

In these models the cost of equity is adjusted for the ESG and quality profile of a selected company, using a standardised set of 40 questions of which circa 20 are ESG performance and momentum measures. The questions focus on areas such as:

- Environmental performance disclosures, targets, and improvements re GHG emissions, water intensity etc.
- Social performance; employee engagement & training, diversity, supply chain management, responsible sourcing
- Governance practices: privacy & data security, overboarding, sustainability linked pay, independence on boards

The questions are binary in nature and combine to give an objective assessment of a company with respect to our four quality pillars: Profitability, Persistence, Protection and People. The questionnaire also helps us to identify the material ESG opportunities and risks each company faces. We seek to invest only in companies with superior ESG performance relative to their peers.

Our understanding of a business is supplemented by meeting and talking to company managements and peers. This ensures our research reflects the firm's strategy and the secular trends it faces.

We may identify and analyse stocks that meet our quality and ESG standards but are overvalued based on our assessment. These are monitored on a 'watchlist' as potential portfolio candidates when/if their valuation becomes attractive. Attractive stocks that emerge from this process are considered for inclusion in our equity strategies depending on the nature of the strategies.

There have been no major changes to our investment process since it was established. However, we are continually evaluating our investment process and making incremental improvements. For example, as data related to the SFDR Principle Adverse Indicators (PAIs') have become available over the past 18 months, we have incorporated them into our portfolio risk management dataset and internal reporting.

Monitoring and review of ESG

Our formal process for Active Equity Strategies includes a monthly report highlighting changes in ESG risks. The report highlights changes to ESG controversy flags and adverse data points. This report is reviewed at monthly risk meetings, with oversight provided by the Chief Investment Officer and Designated Person for Fund Risk. The merit of a formal monthly review is a consistent routine focused on evolving ESG trends. In practice however, there can be large variability in ESG data points on a month-on-month basis, based solely on improvements on data quality from a third-party provider. ESG data quality remains an area for improvement in our industry and the first area of focus when outliers or trends are identified. On an informal basis, the investment team is continuously reappraising the investment thesis of companies held, including updating and reviewing ESG issues.

Resource and data

Our ESG research process is both quantitative and qualitative for Active Equity Strategies. It is led by our investment team, which is supported by a dedicated in-house ESG Research Analyst. Using data from third-party data providers, we have developed an internal Scorecard and reports to systematically review ESG metrics for investment companies. This includes, but is not limited to, the Principal Adverse Impact ('PAI') indicators.

However, this data is combined with further in-house fundamental research, including the review of company reports, ESG research from other independent providers (e.g. the Carbon Disclosure Project ('CDP'), Institutional Shareholder Services ('ISS'), MSCI and The Task Force on Climate-Related Financial Disclosures ('TCFD') etc.) and 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 may engage with an investee or potential investee company as part of the assessment of sustainability risk, as part of the assessment of good governance practices, or if a company is identified as an outlier on specific or several principal adverse data points. If sufficient understanding and resolution on the issue is not achieved, the ESG risk profile of the company will be raised, which may ultimately lead to a decision to exclude the company from the investable universe or divest of the position.

We also encourage firms to adopt international codes and standards (e,g. UN Global Compact, International Labor Organization) or adopt climate emissions reduction targets and disclosures (specifically for investee companies in the Low Carbon strategy). Further information on our engagement policies can be found below.

Fixed income

Our investment team leads ESG integration in the investment process for a number of active fixed income strategies (each an "Active Fixed Income Strategy"), supported by a dedicated in-house ESG Research Analyst. Oversight is provided by a senior management team led by our Chief Investment Officer and Designated Person for Fund Risk. In addition to ESG integration in the investment process, we may also include exclusionary or ESG thematic solutions, often in combination.

Corporate

Fixed income corporate issuers are subject to an internal ESG review as part of the investment selection and monitoring process. This review is focused on identifying sustainability risk, with a focus on the factors or controversies listed in Table 1. In addition, a third-party provider rates ESG risks based on the number and frequency of controversies. If the rating is a 'red flag', we will not invest. An 'orange flag' signals an area of concern, which required further research, investigation and perhaps engagement for the investment manager to gain comfort on prior to investment.

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 using our proprietary Sovereign Ranking ('SIR') system. 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 a third-party data provider. From this, we have created our own SIR system 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 a third-party data provider. It is automatically uploaded and hard-coded into our investment systems. This prevents inadvertent 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 as per the table below illustrates.

Table 2: Exclusions applied to Active Equity & Active Fixed Income Strategies

	Issue	Criteria	Revenue Threshold
Strategies*	Cluster munition or Landmines	Manufacture or sale of cluster munitions or landmines	0%
	Thermal coal	Production of thermal coal	<10%
	Tobacco	Production of tobacco products	0%
	Violation of UNGC Principles and OECD Guidelines for Multinational Enterprise	The severity and number of human and labour rights controverses incidents recorded for a company (denoted by a 'red flag'), provided by a third-party data provider	No red flag violations
ESG Equity & Low Carbon Equity Strategies	Abortifacients	Manufacture of abortifacients	0%
	Pornographic activites	Provide pornographic, harmful or violent materials	0%
	Alcohol	Manufacture of alcoholic products	0%
	Armaments	Manufacture/ sale of weapons, weapons systems & platforms, including products or services related to them	<5%
	Gambling	Gambling-related businesses activities	<5%
Low Carbon Equity Strategy	Fossil fuels (coal, oil, gas)	Ownership of geological reserves of oil/gas/coal	0%
		Power generation	<10%

Source: IQ EQ Fund Management (Ireland) Limited, 2023
*The investment approach in Table 2 applies to:
- the UCITS sub-funds for which portfolio management is undertaken by IQ EQ Fund Management (Ireland) Limited for Davy Funds Plc
- certain segregated mandates also managed by IQ EQ Fund Management (Ireland) Limited

Davy Funds Plc is an open-ended investment company with variable capital and segregated liability between sub-funds, incorporated with limited liability under the Companies Act 2014, authorised by the Central Bank of Ireland as a UCITS pursuant to the Regulations.

If a security is de-rated and becomes unacceptable for our Active Equity and Active Fixed Income 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.

Real Estate

IQ-EQ acts as investment manager of direct real estate investments across a range of sectors including residential, retail, leisure, office, industrial, and across different strategies such as ground-up development, refurbishment and renovation, and dry/standing investments.

Across all these strategies, our role as investment manager covers the following: Investment Decisions; Portfolio Oversight; Middle Office Support; Interface with Investment Advisor and Property Managers; Reporting to Fund board and AIFM; and Payments and Distributions. The investment advisor may advise and make recommendations to the investment manager on investment sourcing, due diligence, day-to-day asset management and site visits.

In instances where a strategy prioritises ESG, we and the investment advisors view sustainability as an integral factor in identifying both risk and opportunities for the real estate investments. This includes environmental and increasingly social considerations. We also believe that the integration and appraisal of sustainability factors must be relevant to the long-term investment case, the physical constraints of the property and the economic realities of the particular asset. It is our view that certain real estate sectors or assets have varying advantages or disadvantages in the transition to an improved ESG rating.

Where possible we look to integrate ESG in the Real Estate investment process, the management of assets and the relationship between asset owner and investment manager through the following activities.

- Encouraging the improvement and standardisation of ESG data disclosures across investments
- Sharing our knowledge and market information with investors, investment advisors and fund board members by drawing on industry best practice and insights across managed funds
- Considering and appraising the ESG risks and opportunities that have been identified by investment advisors for new and existing investments

To achieve these objectives, we work closely with our investors, investment advisors and fund board members. As sustainability knowledge and preferences may vary among our investors, it is important that we adapt our approach to data-collection and knowledge-sharing to reflect this. As a team, we also continue to educate ourselves and engage in continual professional development and active engagement with industry initiatives and organisations such as the Society of Chartered Surveyors and the Investment Property Forum.

Engagement and proxy voting

We have a long-term investment horizon and shareholder and bondholder 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 PRI, to which we have been a signatory since 2016.

Our long-term perspective 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.

Why we engage

We may engage with an investee or potential investee company as part of the assessment of sustainability risk, as part of the assessment of good governance practices, or if a company is identified as an outlier on specific or several principal adverse data points. If sufficient understanding and resolution on the issue is not achieved, the ESG risk profile of the company will be raised, which may ultimately lead to a decision to exclude the company from the investable universe or divest of the position.

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. 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 themselves are informed by initiatives such as the 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 Proxy Voting Oversight Forum, 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 https://iqeq.com/private-wealth/asset-management 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 (company or IQ-EQ) 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 IQ-EQ's approach to managing Conflicts of Interest can be found https://iqeq.com/policy-document

Memberships and 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.

International Sustainable Finance Centre of Excellence is a national platform that advances responsible investing across all asset classes.

Irish Funds Industry Association (Irish Funds) is the representative body for the international investment fund community in Ireland.

Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with the core objective of providing leadership to the alternative investment industry and to be its pre-eminent voice globally.

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 carbonrelated assets in the financial sector and the financial system's exposures to climate-related risks. We are a supporter of TCFD.

About us*

We are part of IQ-EQ Group, a leading investor services group employing over 5,000 people across 25 jurisdictions worldwide. We bring together that rare combination of global expertise with a deep understanding of the needs of our clients. We have the know how and the know you to support fund managers, global companies, family offices and private clients.

Contact IQ-EQ

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*Information correct as of 1 September 2023

Reference: IH2742_14092023

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