



Transparency of promotion of ESG characteristics and sustainable investments

Introduction

As long-term investors, Davy Private Clients believes that Environmental, Social and Governance (ESG) risks and opportunities can have a material impact on the value of investments. In addition, Davy Private Clients believes it can make an impact on society and the environment through its investment decision making.

The investment approach we employ is a multi-asset, multi-manager approach, constructed using an open architecture. Davy Private Clients identifies world class investment managers for its client portfolios, blending investment styles and a mixture of active/passive approaches.

Investment Process & Strategy

Our asset allocation approach has evolved from the traditional 60/40 approach to an outcome-based approach using global multi-asset portfolios. We monitor three cycles (the Business, Credit and Financial Cycle); our assessment of these cycles influences the level of risk we take in portfolios and the strategic and tactical asset allocation decisions we make within Davy Private Client portfolios.

Our approach starts with developing an informed view of the world. We incorporate our investment strategy teams' views on global markets and economies to identify the key drivers and trends across all asset classes.

The Investment Strategy Team form the Davy Private Clients' view of the world, focusing on macro factors that they believe will impact asset class returns over a long-term time horizon. The team analyses the relative economic growth prospects and general market valuations of the main markets globally in order to establish regional preferences. In addition, they examine which sectors are likely to do well, and which are likely to do poorly, and whether our view is reflected in the valuations of those sectors.

Critically, all decisions are vetted by the Investment Committee.

The Investment Committee challenge, query and question all the recommendations, views and assumptions of the Investment Team.

Investment Selection

The investment process and strategy inform our investment selection process, where we aim to identify the most skilled investment managers, and to continually monitor and assess them against their global peers. The search universe is focused on managers who are signatories to the United Nations Principles of Responsible Investing (UN PRI). These managers at a minimum screen out exposures to controversial weapons such as cluster munitions and land mines.

The process is a combination of qualitative and quantitative assessments, with an emphasis on meeting the investment manager and their team. This work focuses on identifying opportunities which can produce persistent outperformance over time.

Several key attributes are assessed to identify suitable managers for Davy Private Client Portfolios and are summarized in the diagram below.



Methodology

Manager holdings are monitored on an ongoing basis for consistency with stated investment mandate and stated ESG objectives. In addition, Davy Private Client's Investment Team receive investment data and ESG data from factsheets and specialised reports provided by these third-party managers. This is supplemented by face to face manager meetings.

Style Analytics™ software is employed to analyse the ESG Model Portfolio offering from both an investment style and ESG perspective.

The software provides an independent assessment of portfolio positioning at a holdings level. The software uses a combination of in-house data and third party ESG data from their partners, who include MSCI, Sustainalytics and Trucost. ESG data points covered include:

- MSCI ESG Ratings – ESG Overall

Environmental Metrics

- MSCI ESG Ratings – Environmental
- MSCI ESG Ratings – Climate Change
- MSCI ESG Ratings -Natural Capital

Social Metrics

- MSCI ESG Ratings – Social
- MSCI ESG Ratings – Human Capital
- MSCI ESG Ratings – Product Liability

Governance Metrics

- MSCI ESG Ratings – Governance
- MSCI ESG Ratings – Corporate Governance
- MSCI ESG Ratings – Corporate Behaviour
- MSCI Governance Metrics – Accounting
- MSCI Governance Metrics – Board
- MSCI Governance Metrics - Pay

Carbon Metrics

- Trucost Carbon Footprint
- Trucost Environmental Impact

A dedicated Socially Responsible Investment (SRI) Committee, alongside Investment Selection and Portfolio Construction teams, monitors the ongoing alignment of instruments with the overall ESG objectives of the product and the above-mentioned data sources. If any deviations are identified they are discussed at Investment Committee level to agree how best to proceed and whether the deviation warrants deselection of the instrument from portfolios.

Article 8 SFDR Disclosures

Our Investment Selection Team research and assess third party managers for inclusion in our portfolio offerings, making informed decisions on the degree to which Environmental, Social and Governance (ESG) considerations inform the manager's investment decision making process.

ESG assessment is integrated to a varying degree, dependent on the individual fund and portfolio solution. This analysis incorporates an examination of the ESG profile of underlying companies/countries in relation to material environmental, social and corporate governance criteria. While this assessment will inform the investment decision making process, it may not be the deciding investment characteristic in portfolios with no stated ESG characteristics or sustainability objectives.

In the case of certain portfolio solutions, ESG characteristics are a significant factor in the investment decision process. Such portfolios are constructed using dedicated ESG oriented instruments that incorporate a combination of ESG investment approaches in their investment process, including:

- Exclusions - based on business involvement & controversial activities,
- ESG integration
- Best in class
- Sustainability themed.

Such portfolios are overseen by a dedicated Socially Responsible Investment Committee (SRI IC) within Davy Private Clients. The dedicated committee ensures the ESG credentials of your portfolio are maintained.