Separate Account Managers in Sustainable and Responsible Investing

Davy Global ESG Equity

About This Strategy

Assets Under Management (AUM): $74M (in US$ millions)

Required Minimum: 5 million

Benchmark used: MSCI World

Strategy type: International/Global

Strategy description: The Davy Global ESG Equity strategy invests in high quality companies with best in class ESG profiles using a blend of quantitative and fundamental-based investment approaches.

The strategy views ESG risks as long-term material business risks and, as such, seeks to invest in companies with superior ESG performance relative to peers. ESG is integrated across the investment process, including idea generation, fundamental research, stock valuation, risk management and engagement.

The firm believes stocks which exhibit the characteristic of QUALITY will deliver consistent superior risk adjusted performance over the long term. Based on the firm’s definition of QUALITY a proprietary multi-factor QUALITY model has been developed founded on the four pillars of Profitability, Persistence, Protection and People.

A bespoke QUALITY model ranks the entire investment universe according to a proprietary definition of QUALITY. The Strategy focuses on the highest QUALITY names in the investment universe.

The uniqueness of the process is the result of; a bespoke definition of Quality, a proprietary Quantamental investment process and the comprehensive integration of ESG criteria. The combination of these three elements by the experienced investment professionals separates this strategy from its peers.

Strategy web link: [External Link](https://charts.ussif.org/sam/strategy_profile_display.php?StrategyID=361&)

About The Company

Institution Name:
Davy Global Fund Management

Approach to Sustainable & Responsible Investment:
Davy Asset Management (DAM) is an investment firm based in Dublin, Ireland. It is part of the Davy Group, one of Ireland’s leading providers of asset management, wealth management, capital markets and financial advisory services. The Davy Group is wholly owned by its employees which allows us to focus on longer term objectives. DAM was formed through the mergers of Davy’s in-house investment manager Focus Investments, Bloxham Investment Managers and the acquisition of Prescient Investment managers in 2014.

Since inception in 1926, Davy Group has been a recognized leader in responsible investing to organizations in Ireland, the UK and Europe, we look to continue this history at DAM. The firm continues to invest for the future ensuring its processes, products and services are not compromised as it grows. DAM is a signatory to the UN Principals for Responsible Investment since 2016, which underpins its continued commitment to responsible investing.

Total AUM in SRI: $6,400M (in US$ millions) as of 06/30/2019.
Firm Web Link: www.davyassetmanagement.com/about/davy-group.html

Investment Awards & Nominations:

2019
- Investment Week ESG & Sustainable Investment Awards Short List, Boutique Fund Management Group of the Year: Davy Asset Management.

- Investment Week ESG & Sustainable Investment Awards Short List, Award for Innovation (Research & Methodology): Davy Asset Management-Davy Climate Change Research Methodology.

- Investment Week ESG & Sustainable Investment Awards Short List, Global Thematic: Davy Discovery Equity Fund.

- Woman of the Year, Investment, Chantal Brennan, Davy Discovery Equity Fund.

2018
- Investment Week ESG & Sustainable Investment Awards Short List, Best ESG Investment Fund Award: Davy ESG Equity Fund.

- Investment Week ESG & Sustainable Investment Awards Short List, Innovation (Funds): Davy Low Carbon Equity Fund, launched 2017, which explicitly invests in stocks which are best-in-class in both carbon emissions (low emissions) and QUALITY.

- Investment Week ESG & Sustainable Investment Awards Short List, Innovation (Research): Davy Asset Management. The cost of equity in our Valuation Model is adjusted for QUALITY and ESG to account for ESG related business risks.

- Investment Week ESG & Sustainable Investment Awards Short List, Thematic: Davy Discovery Equity Fund.

- Women in Finance Ireland, Fund Manager: Chantal Brennan, Davy Discovery Equity Fund. Honorable Mention.

2016
- Investment Week ESG & Sustainable Investment Awards Short List, Best New Fund: Davy ESG Equity Fund.

- ESG & Sustainable Investment Awards Short List, Best Ethical Fund: Davy ESG Equity Fund.

Our fund range has strong rating versus international peers from Morningstar and FE Trustnet. The Davy Discovery Equity Fund is 4 Star rated by Morningstar and the Fund Managers are A rated by Citywire, as of 30/6/2019.

Investment Philosophy: We believe stocks which exhibit the characteristic of QUALITY will deliver consistent, better performance over the long term. We have developed a proprietary multi-factor QUALITY model founded on the four pillars of Profitability, Persistence, Protection and People, whose effectiveness is supported by extensive back-testing. The results of which have been published in a white paper, QUALITY Matters*.

The firmâ€™s analysis suggests that companies, irrespective of their value or growth orientation can be united by common factors, such as high returns, earnings stability, low leverage and total shareholder return (buybacks, dividends). We call these QUALITY businesses, they can resist the forces of competition and maintain higher profitability, independent of economic conditions, so we focus on understanding four key the attributes of a business; Profitability, Persistence, Protection and People. The characteristics of which are described below.

Profitability: Profits are the ultimate source of investment returns and their persistence is essential to ensure returns are stable over time. The model focuses on a companyâ€™s margins, its return on equity, return on assets, return on invested capital and cash flow generation. Emphasis is placed on identifying companies with barriers to entry such as brands, patents, regulation and control of scarce resources that may also support superior profitability.

Persistence: To sustain profitability, companies need to innovate and reinvest in their businesses. They also need to demonstrate a sharp focus on cost control. They may also benefit from economies of scale, which can give them a competitive advantage as their businesses expand. Persistence is modelled by the growth and consistency of a companyâ€™s profits and returns over time.

Protection: It is vital that companies maintain a level of balance sheet leverage that is consistent with their operating environment. The level of leverage within the company is assessed with its fundamental business model and general economic environment in mind. Higher leverage may be appropriate for companies with stable, regulated returns.
Volatility is additionally considered through measures such as the beta of the stock price as these measures give useful signals about the level of market risk.

People: The attitude of company management to capital allocation is a vital component in company performance through the cycle. Prior capital allocation decisions of management are assessed, including: dividend payments; equity issues/rights issues and bond issuance. Companies that pay out excess cash flows in the form of dividends and buybacks are favored. Assessments of corporate governance policies within a firm are also considered.

We believe this philosophy will succeed over the long term due to significant empirical evidence in support of the existence of Quality Factors™ and the persistent performance of firms with these characteristics. In our latest working paper, Quality Matters: Asymmetric Returns the performance of the firm’s definition of QUALITY is reassessed. We compare the risk and return profile of our definition of QUALITY to MSCI’s definition, and to other factor styles. This shows a more comprehensive definition of QUALITY delivers better risk-adjusted returns; driven by downside protection and better upside capture.

* White papers are attached.

Investment Approach: We have a proprietary database consisting of c.15,000 stocks across all investable markets. It uses multiple data feeds to source corporate information, including: global company fundamentals, analyst estimates, ESG and market data. Within this universe, c.6,000 stocks are within our investable large market cap range. Using our bespoke QUALITY model, we rank the whole investment universe according to our definition of QUALITY. This ensures we can cover both a wide breadth of stocks while at the same time analyzing individual companies in depth, giving us scale, insight and consistency.

As active bottom-up investors the firm takes a Quantamental approach, which combines the strengths of quantitative and fundamental research. This approach creates scale, improving our insights and helping to deliver consistent performance. We consider our approach to be data-inspired, not data driven, using up-to-date tools and techniques creates an innovative and disciplined research process. The result is an integrated investment philosophy and process, culminating in high-conviction portfolios of high-QUALITY stocks held at appropriate valuations.

Research: Internally. Bottom-up analysis is performed at an individual stock level, this can be aggregated up to an industry level using a consistent framework. Complementing this approach, we have developed a proprietary fundamental research report template to qualitatively assess all potential investments. This ensures that the same standards and methodologies are applied in terms of analysis, making stocks easily comparable, particularly in terms of valuation. Each report contains an outline of the investment thesis; a justification of earnings estimates and the investment risks inherent within the stock, summed up in a discounted cash flow (DCF) model with base, bull and bear case valuations. This DCF valuation is derived from forward-looking earnings and cash flow estimates, based on our own fundamental analysis of a company's prospects. The cost of equity used in this model is adjusted for ESG and other company specific risks using our proprietary Q-Score checklist.

The firm adopts a collaborative approach to research across all strategies. This creates complementary insights from portfolio managers who are focused on different investment styles such as Income, ESG, Growth and Smaller Companies as well as Quality. This is formalized through daily and weekly meetings where new quantitative and fundamental research, thematic insights and news flow is presented and debated.

As well as stock-specific research, the portfolio management team may also perform sector reviews which examine specific industry groupings and seeking to better understand the industry-specific characteristics which drive them. Insights gained are incorporated into the Quality model, ensuring that industry idiosyncrasies are better captured by the model.

Approach to Sustainable & Responsible Investment: ESG is incorporated into the investment process through; Integration and Engagement. For smaller companies, this is a continuous process, especially as the level of information is imperfect contrasted with larger Capitalisation companies there is greater transparency.

Integration: MSCI ESG research is used to complement fundamental analysis giving a more in-depth understanding of the business risks a firm faces. In addition, the cost of capital in the DCF model is adjusted to reflect a firm’s QUALITY/ESG score; increasing it for those with poor scores and decreasing it for those with strong scores.

Engagement: The firm engages with management for information and change. By engaging with management, a better understanding of the firm’s business risks and exposures is gained. All engagement is led by our portfolio managers in the belief that engagement has a greater probability of success when driven by the investment decision-maker. As investors in smaller companies, we tend to be long-term shareholders (3 to 5 years), and many of our meetings are directly with the CEO or CFO. Meeting companies allows us to test assumptions of our research and gain additional
In addition to engaging with companies for information we engage with them for change. When we engage for change, we do so to lever our position as shareholders to encourage changes in corporate behavior, particularly where the corporate behavior represents an ESG risk. Potential ESG risks are identified through fundamental analysis, complemented by detailed external ESG research. We focus our efforts on those ESG issues which represent material business risks to the company. We believe an engagement process which is led by investment decision makers will have a stronger impact.

Additionally, voting the Fund’s proxies complements our engagement activities as it allows us to express our views in a direct and objective fashion. Proxy voting may also act as a catalyst for engagement where an investee company approaches us for clarity on a specific voting issue.

Active Ownership: The firm engages regularly with company management for information and change. Post investment, the firm’s views are reflected by proxy voting to steer companies towards more responsible decisions. We use ISS for proxy voting purposes and subscribe to their Sustainability Research module. Articles on sustainability by the team have been published in The Sunday Times and Investment Week. Also, they have also engaged with;

UN PRI: Davy Asset Management have been a signatory to the United Nations Principles for Responsible Investment since 2016, receiving an A+ rating for Strategy and Governance in our latest assessment report. Through our membership of UN PRI, we became signatories to the Global Investor Statement to Governments on Climate Change in 2018.

Sustainable Investment Forum Ireland: Davy Asset Management are active members of our local Sustainable Investment Forum, partnering on events aimed at developing awareness of sustainability issues among the investment community and furthering Ireland’s position as a sustainable finance hub.

Carbon Disclosure Project (CDP Ireland): A member of the investment team at Davy Asset Management sits on the steering committee of the Carbon Disclosure Project (CDP) in Ireland, the Irish chapter of a global organisation aimed at improving corporate disclosure of environmental impact. The CDP has over 6,000 corporate signatories and originated from the United Nations Environment Programme.

Sustainability Skillnet: A member of our investment team sits on the Steering Committee of Sustainability Skillnet, the government’s national sustainable finance training programme aimed at developing Ireland into a global sustainable finance hub by 2025.

UK Investment Association: Featured in a short film "Building Trust and Delivering Value"; about Corporate Governance Reform and ways to can engage with stakeholders. Please find the short video here: https://www.linkedin.com/feed/update/urn:li:activity:6473557388988424192loys

Total AUM in SRI: $6,400MM (in US$ millions)

Research conducted: Internally

Researcher name: Strategy Portfolio Managers

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Specific Screening Information by Category

Environment
- **Climate / Clean Technology**: Combination of Positive and Restricted/Exclusionary Strategies
- **Pollution / Toxics**: Combination of Positive and Restricted/Exclusionary Strategies
- **Other Environmental**: Combination of Positive and Restricted/Exclusionary Strategies
Social

- **Community Development**: *Combination of Positive and Restricted/Exclusionary Strategies*
- **Diversity & Equal Employment Opportunity**: *Restricted/Exclusionary Investment*
- **Human Rights**: *Restricted/Exclusionary Investment*
- **Labor Relations**: *Restricted/Exclusionary Investment*
- **Conflict Risk**: *Combination of Positive and Restricted/Exclusionary Strategies*

Governance

- **Board Issues**: *Combination of Positive and Restricted/Exclusionary Strategies*
- **Executive Pay**: *Combination of Positive and Restricted/Exclusionary Strategies*

Products

- **Alcohol**: *Restricted/Exclusionary Investment*
- **Animal Welfare**: *Combination of Positive and Restricted/Exclusionary Strategies*
- **Defense/Weapons**: *Restricted/Exclusionary Investment*
- **Gambling**: *Restricted/Exclusionary Investment*
- **Tobacco**: *Restricted/Exclusionary Investment*

Other

- **Shareholder Engagement - Shareholder Resolutions**: Filed or co-filed with companies on environmental, social or governance issues
- **Shareholder Engagement - Private Dialogue**: Conducted with companies on environmental, social or governance issues
- **Proxy Voting**: Actively voted by my institution for this investment strategy in support of environmental, social or governance issues in accordance with formal guidelines

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