



## **Odyssean Investment Trust plc**

**Proposed introduction of ethical and sustainable investment restrictions, and enhanced ESG due diligence & engagement**

**December 2020**



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# OIT's existing approach to engagement and sustainable investing



Differentiated investment strategy which has been selective and engaged

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1. **Governance standards, operational and capital efficiency and the potential for corporate engagement have always been key investment considerations**
  - We have a good understanding of how to evaluate financial performance, strategy and corporate governance, which has allowed us to engage where there is improvement potential
  
2. **Our quality-based investment criteria and individual preferences have naturally “selected out” many companies which have unsustainable business practices, are potentially socially damaging and/or are commodity driven**
  - Focus on companies “we would conceptually be 100% owners of for the long term”
  - Avoiding companies with business practices and operations we feel are, or risk being unsavoury/unethical
  - Long term aversion to commodity-based businesses
  
3. **In Q1 2020 we began to reassess our approach to sustainable engaged investing, which included a widespread shareholder consultation**
  - Proposed changes we are announcing today are the result of this review and consultation

# Proposed changes to how OIT's assets will be managed

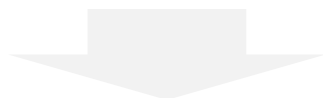
We are formalising and evolving our ethical, sustainable and engaged investment approach



## Where we invest

### Current situation:

- We have always focused on 4 core sectors which have lower ESG risk – TMT, Services, Healthcare, Higher IP Industrials



### Future:

- We are formalising our focus through amending our investment policy introducing more investment restrictions
- Subject to shareholder approval, this will be formalised in OIT's investment policies
- This will provide existing and potential shareholders certainty

## Our investment process and diligence

### Current situation:

- Governance is a key section of our diligence. 'E & S' issues part of a holistic review of business quality



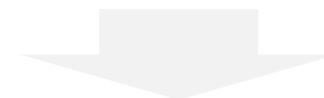
### Future:

- We are formally adding 'E and S' reviews into our diligence process for new and existing holdings
- This improves the ethical and sustainability assessment process for our existing and potential investee companies

## Where we engage

### Current situation:

- Actively engage to support improvement across multiple areas, mainly governance & financial performance



### Future:

- Significant broader ESG engagement scope - working with a niche ESG data provider to identify areas for improved action and disclosure
- This will help us and portfolio companies better understand their ESG performance and improvement potential

# OIT's proposed ethical and sustainable investment exclusions

Revised investment policy will formalise Portfolio Manager's existing investment focus



## Summary of additional investment restrictions

Complete exclusions <sup>1</sup> based on sales	Limits, subject to assessment of business practices
Controversial weapons <sup>2</sup> ; civilian firearms & ammunition	
Ownership of operation of gambling facilities	
Sub prime/predatory lending	
Oil & Gas production, extraction and refining	
Inappropriate/unnecessary animal testing	
Alcohol and Tobacco production	Alcohol and Tobacco distribution and retail (10% of NAV in total)

- OIT's existing investment policies do not formally restrict these investments, but the Portfolio Manager has very rarely invested in these areas due to ethical and sustainability concerns
- Companies with low ethical and sustainability factors have been informally screened out by the Portfolio Manager's highly selective approach and sector focus
- Proposed changes will provide clarity and certainty for existing and potential shareholders and will be audited 6 monthly by a 3<sup>rd</sup> party ESG specialist

<sup>1</sup> Exclusions will be based on analysis of publicly available information and will exclude revenues and activities which are deemed to be de minimis - less than 1% of company's revenues

<sup>2</sup> "Controversial Weapons" are deemed to be those which are regulated by international conventions, i.e. anti-personnel landmines, cluster munitions, chemical, biological, depleted uranium and nuclear weapons

# Portfolio Manager's investment process and engagement

E&S issues will be fully integrated into due diligence and engagement processes



## Our investment process and due diligence

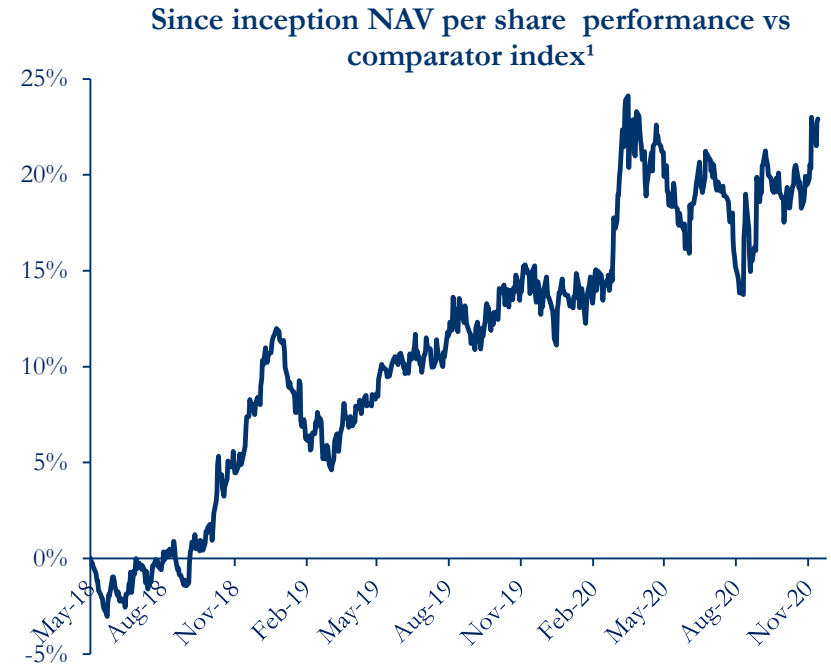
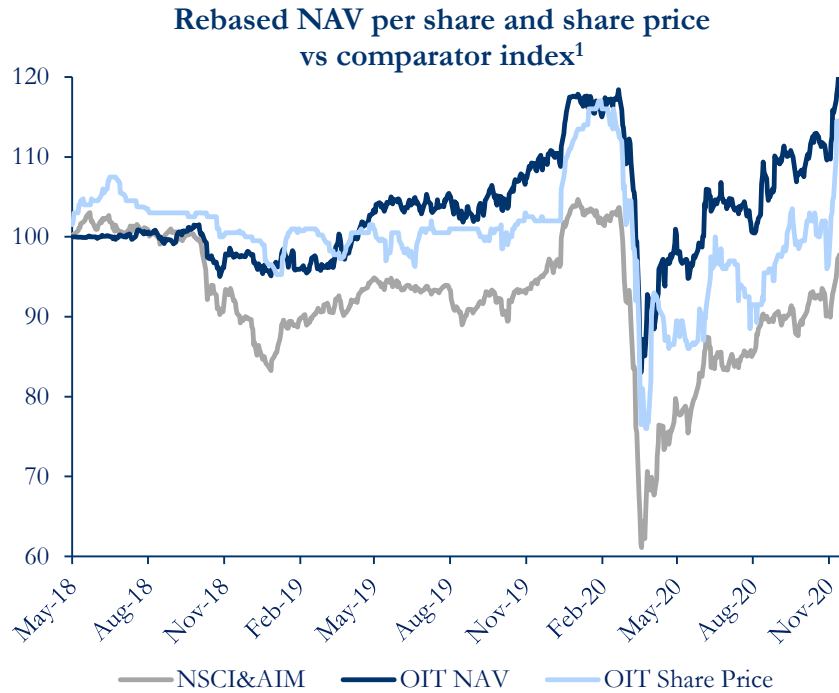
- **Integrating use of comprehensive third party data provided by niche ESG rating company into our diligence process**
  - Working with a new provider of proprietary ESG data, focused on smaller companies, which draws on >600 data points to assess ESG performance, aggregating approaches of multiple existing large rating agencies
  - Standard report produced for each portfolio company - used in due diligence pre-investment to highlight absolute ESG performance, as well as performance relative to peers and best in class - akin to “Quest or Holt for ESG”
  - Identifies how portfolio companies can improve their ESG disclosure and performance

## Where we will engage

- **Communicate with companies the gaps identified in due diligence and relative performance (vs peers and best in class).**
  - Lack of resource and understanding by smaller companies of ESG disclosure and rating requirements
  - Lack of disclosure by companies - often leads to “empty box” and zero score
  - Larger rating agencies focused on providing data for larger quoted companies
- **Encourage improved and appropriate disclosure progressively over the long term, which will most likely see progressively improved ESG practices and ratings**

# Performance has not suffered with OIT's selective approach

Focus on selective investing and engagement has driven differentiated performance



- We expect and are used to short term relative performance varying materially from the comparator index due to a concentrated portfolio
- We anticipate very limited long term headwinds to performance from the proposed negative screens
- Enhanced engagement on ESG matters could help re-rating of companies improving ESG performance and disclosure

As at 13th November 2020. Performance measured from COB 1/5/18, share performance since inception assumes IPO price of 100p. Source: <sup>1</sup>Link Asset Services, Bloomberg, Odyssean Capital; Numis Smaller Companies plus AIM ex Investment Companies Total Return Index. Rebased to start NAV

Past performance is no guarantee of future performance and the value of investments can go up and down



## Portfolio Manager

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