



**EVENLODE**  
INVESTMENTS FOR LIFE

# Exclusions Policy

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December 2025





## Introduction

This policy outlines Evenlode Investment's approach to implementing exclusions within our investment activities and sets out our approach to exclusions within the context of our ESG risk management framework and our investment process. We recognise the importance of integrating environmental, social and governance (ESG) considerations into our investment process. This commitment has been part of our approach since inception. Our stance is risk-based: we do not seek to align with any moral or ethical agenda; rather, we aim to identify and price all material risks a company may face over the long-term. As long-term equity investors (with a typical holding period of five to seven years), we take a comprehensive view of potential regulatory, environmental and social factors that could affect a company's licence to operate, cash generation, asset intensity, and ultimately the resilience and growth of future earnings.

This is a firm-wide view, which applies to all assets under management and is reviewed at least annually.

## Investment process

The Evenlode Investment philosophy is based on two central themes:

1. Investment is a long-term pursuit, with returns driven by the fundamental performances of the underlying portfolio companies.
2. Active risk management is key to producing attractive, long-term shareholder returns.

Evenlode sees investments as fractional ownership stakes in real companies and therefore takes a long-term, business-perspective approach to investment. We believe that this approach best aligns our investment decisions with a long-term investment horizon<sup>1</sup> and lowers volatility of investor returns. This performance profile, alongside ongoing communication, and service for investors, should promote long-term relationships (with investors) and lower turnover. This should allow time-weighted and money-weighted fund performance to converge.

Evenlode invests in high quality, cash generative companies at sensible valuations. Evenlode defines quality companies as those that can sustain high returns on invested capital over an extended period. These companies commonly have a durable competitive advantage, operate in a market with structural growth drivers, and are continuously investing to improve their competitive position. These companies generate high cash flows relative to their asset base, commonly termed 'asset light'. They also command 'pricing power' as their products and services provide clients a service valued far above the cost of provision.

Consequently, these companies can compound cash flow, sustainably over a long period of time. This provides the company with the optionality to increase investment, pursue buyback or raise dividend returns to shareholders. This cash flow compounding drives long-term shareholder returns.

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<sup>1</sup> A long-term investment horizon is defined in the fund prospectuses as 5 years or longer.





## ESG risk management

We judge each business on its own merits when determining its ESG risk score. We believe all companies face ESG risks and opportunities, and that these should be assessed critically as part of our analysis before we draw conclusions. Across our investable universe, we assess companies on financial and non-financial factors, grouped into three categories:

- Business: Economic moat, pricing power, long-term industry outlook, economic sensitivity, diversification, management and culture, and ESG.
- Financial: Balance sheet strength and cash generation.
- Investment: Liquidity and valuation risk.

We assign each risk factor a score from A to E for every company we follow and analyse. This scoring framework prompts robust discussion within the investment team both in our regular risk-scoring meetings and when an investment case is reviewed, so that decisions are made collegiately and reflect a range of viewpoints. Companies that score poorly on certain issues, or on combinations of issues, are less likely to be included in our investable universe.

We assign an ESG risk grade of 'E' where a company has significant ESG-related risks that are not being adequately managed. An 'E' makes the company ineligible for investment. This is fundamentally a risk-control mechanism; companies that fail to manage their own risks face a greater likelihood of fines and regulatory censure, reputational damage, and, in turn, lower revenues, profitability and cash flow.

## Engagement

We will engage with those companies that we grade better than an 'E' in our ESG risk matrix. We consider engagement with companies as an opportunity. Discussing challenges with companies enables us to understand their business context and obtain more information about their mitigation of and resilience to the risks that we perceive.

Ultimately, we are seeking to create long-term value for our clients through improving the sustainability characteristics of a company. However, we understand that all this takes time and a measured approach. This type of approach requires appropriate engagement objectives and is why we set objectives for each engagement, which allow us to stay focused and monitor our ongoing engagements.

Risk management is still a focus for those companies that we do not exclude on ESG grounds. The company's ESG risk score is considered when setting its maximum position size as a routine part of our investment process. However, important to note that the score is not looked at in isolation and companies that have lower scores will, all other things equal, have lower maximum position sizes.

## Likely exclusions

The Evenlode strategies are not constrained by sector or geography (beyond the stated mandate). However, our investment process - which focuses on high-quality, cash-generative businesses capable of sustaining high returns on invested capital (ROIC) over the long term - naturally steers us away from the sectors highlighted below. These are not formal exclusions, and in theory we could





identify a company within these sectors that meets our requirements. In practice, however, we are very unlikely to invest in them.

1. **Banks:** Earnings are driven by leverage, credit losses and regulation rather than by the kind of durable economic moats and pricing power we look for in businesses. Balance sheets are often complex and opaque. Payouts are also pro-cyclical which reduces reliability for an income and growth mandate. This makes a compounding a high ROIC harder to achieve through the cycle.
2. **Energy:** Businesses are inherently capital intensive which require continual investment in generation, networks and storage, which can depress free cash flow and return on invested capital over time. Pricing is largely set by regulators while earnings are driven more by interest rates than by firm-level competitive advantages. The energy transition adds further risk, with large, initial capex and long paybacks that make cash compounding uncertain. This profile contrasts with our preference for asset-light businesses with strong pricing power and sustainable ROIC.
3. **Oil & Gas:** Companies are price takers whose cash flows swing with commodity cycles and geopolitics. Structural ROIC tends to be lower and more volatile than what we look for, and transition risks - carbon pricing, policy shifts and potential stranded assets - further cloud long-term capital allocation. These characteristics are at odds with our focus on asset-light cash compounding businesses.
4. **Utilities:** Companies in the sector typically operate in heavily regulated markets with limited pricing flexibility. Earnings are often capped by regulatory frameworks rather than being driven by competitive advantages or customer demand. The sector is also capital intensive, requiring continual reinvestment in infrastructure, generation capacity and networks, which depresses free cash flow and reduces the ability to compound returns on invested capital over time. Furthermore, regulatory and political risks can be significant, with outcomes dependent on government policy, subsidies, and tariff-setting rather than business quality.
5. **Real Estate:** Companies are asset-heavy and usually carry a lot of debt. Their returns depend on interest rates, property valuations, and refinancing, so cash flows can be volatile. Many firms grow by buying additional properties using new debt or equity, which can dilute returns. This dependence on balance-sheet expansion and capex is inconsistent with our preference for asset-light, cash-generative compounding businesses.
6. **Tobacco:** While historically highly cash generative, the industry faces long-term structural decline driven by regulation, taxation, health awareness, and litigation risks. Growth is heavily reliant on price increases in shrinking volumes, which limits durability of returns. The sector is exposed to ongoing ESG controversies that threaten its social licence to operate, raising questions about their long-term capital allocation and sector outlook.





## Defence sector

The defence industry sits on a spectrum - some activities are more justifiable than others. Because of this, we apply a nuanced approach rather than a single blanket rule. Instead of making broad ethical judgements, we assess exposure on a case-by-case basis and review these carefully within our ESG risk assessment and therefore in our decisions to include certain stocks into our investable universe.

Evenlode does not operate a blanket exclusion on investing in the defence sector. We recognise that some companies supply dual-use products or services - such as aircraft components or information systems - that serve both civilian and military markets. These companies are assessed on a case-by-case basis, with close consideration of their business models, risk profiles, and alignment with our broader ESG principles. While we acknowledge the arguments in favour of investing in the defence sector, we believe the risks highlighted below must be carefully managed.

- Elevated ESG risks - especially environmental and social risks, which make the sector particularly challenging.
- Client concentration risk - defence companies often generate a large proportion of revenues from a single client.

Achieving zero exposure to the defence sector is difficult, as it would prevent the fund from investing in many sectors that have only a minimal exposure to defence and damage the potential for risk-adjusted returns. The Evenlode portfolios invest in the materials, information technology, and industrial sectors, which inherently results in some indirect exposure to defence-related revenue (see Annex - Defence-related revenue).

We recognise that this topic demands a nuanced debate and acknowledge the arguments in favour of investing in the defence sector. National security is a priority for governments worldwide, and it can be argued that the industry plays a role in supporting social stability and security - both of which are fundamental to the United Nations' SDG 16, which seeks to promote peaceful and inclusive societies and ensure access to justice for all. Many defence businesses also demonstrate resilient financial models and, in some cases, deliver high returns on invested capital and strong free cash flow generation - qualities that align with the characteristics we seek in our investable universe. However, the opposite is also true. Many companies in the sector fall short of our criteria: their high asset intensity often constrains consistent cash generation, and their long-term prospects can be undermined by shifting political priorities. Moreover, while competitive advantages are usually entrenched due to the nature of government procurement, this can limit pricing power and contribute to structurally tight margins.

## ESG risks

The ESG-related risks we feel are material to the defence sector:

### 1. Governance risks

- Opaque contracts - defence procurement is often linked to opaque government contracts, high-value deals, and politically sensitive agreements, making the industry particularly vulnerable to corruption, bribery, and unethical lobbying.





- Misalignment with UN Global Compact (UNGC) Principles – the top five US defence contractors are not listed as signatories to the UNGC. The tenth principle explicitly calls for businesses to work against corruption in all forms. Whilst the companies’ internal policies may align or reflect similar values to those promoted by the principles, without formal participation, their alignment to the principles is self-regulated.
- 2. Environmental risks**
    - Military operations, weapons manufacturing, and aerospace development are incredibly energy-intensive, contributing significantly to carbon emissions.
    - Investing in the sector is currently at odds with our long-term decarbonisation strategy and net zero targets.
  - 3. Social risks**
    - Using ethical considerations in our ESG risk management strategy is difficult. On one hand, investing in the sector could support the preservation of life if the deterrence presented by well-equipped national militaries leads to reduced levels of conflict, which could be considered a social good. Defending liberty in democratic nations may be considered an ethical or moral good depending on one’s views on political philosophy. On the other hand, defence activities have the potential to cause significant harm and disruption to people's lives and humanity more broadly.
  - 4. Regulatory risks**
    - Regulatory uncertainty - Economic sanctions have increased regulatory uncertainty. However, more recently, regulators and governments are increasingly clarifying that ESG, and defence is not mutually exclusive. What is however, restricted by sustainability regulations are investments into controversial weapons.
    - Public sentiment volatility – While investing in the defence sector is currently more accepted, this could shift dramatically. Bringing with it heightened reputational risks.

## Exclusion - Controversial weapons

As an asset manager and active steward of our clients’ assets, we use our influence to encourage companies to improve their sustainability practices through a consistent dialogue. Consequently, we view engagement as a more effective approach than divestment. However, there are specific sectors and economic activities where the sustainability risks to people and the climate are so severe that providing capital to companies operating in these areas is fundamentally misaligned with our investment process and therefore requires an explicit exclusion policy.

The United Kingdom technically doesn’t have formal legal definition of Controversial Weapons in UK law however their use and proliferation is regulated under the UN’s Non-Proliferation of Nuclear Weapons Treaty 1970 (NPT). ‘Controversial weapons’ are those that are banned or heavily restricted by international law because they cause indiscriminate or long-lasting and disproportionate harm and remain dangerous long after conflicts end. Examples include biological and chemical weapons, anti-personnel landmines, cluster munitions and nuclear weapons. For context, ‘conventional





weapons' are defined as those used in standard warfare, typically limited by time and location to the battlefield.

This policy applies to the following categories of controversial weapons and is in response to a combination of national laws and international treaties including but not limited to:

## **Biological Weapons Convention (BWC)**

The BWC, in force since 1975, bans the development, production, stockpiling, and use of biological and toxin weapons. As of May 2025, 189 states have ratified or acceded, with an additional four signatories (Egypt, Haiti, Somalia, and Syria).

## **Chemical Weapons Convention (CWC)**

Ratified by the UK in 1996, the CWC bans all activities related to chemical weapons, including their development, production, acquisition, stockpiling, and use. It represents a comprehensive effort to eliminate an entire class of weapons of mass destruction. As of August 2025, 166 states have ratified or acceded to the treaty.

## **Anti-Personnel Landmines Convention (Ottawa Treaty)**

Ratified by the UK in 1999, the treaty prohibits the use, production, stockpiling, and transfer of anti-personnel landmines and requires destruction of stockpiles within four years. Its aim is to eliminate landmines globally due to their indiscriminate and long-lasting harm to civilians. As of March 2025, it has 94 signatories and 73 parties (states that have ratified/acceded).

## **Convention on Cluster Munitions (CCM)**

Ratified by the UK in 2010, the CCM prohibits the use, production, stockpiling, and transfer of cluster munitions, requiring destruction of stockpiles within eight years. Given both the UK's legal ban and the humanitarian rationale, cluster munitions are one of the most strictly excluded categories in responsible investing. Currently, 193 states are parties, representing near-universal membership.

## **UN Convention on Certain Conventional Weapons (CCW)**

Entered into force in 1983, it bans or restricts weapons that cause unnecessary suffering or have indiscriminate effects on civilians. Its five protocols cover weapons with non-detectable fragments, landmines/booby traps, incendiary weapons, blinding laser weapons, and explosive remnants of war. The UK is a state party to the CCW and its protocols.

## **UN's Non-Proliferation of Nuclear Weapons Treaty – 1970 (NPT)**

Aims to prevent the spread of nuclear weapons to countries that don't already have them. As well as two other core objectives; peaceful use of nuclear energy, and nuclear disarmament commitments. The UK has signed and ratified the NPT, along with all five recognised nuclear-weapon states.



# Exclusions Policy

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Companies operating in the following areas are treated as follows:

Biological Weapons	Excluded
Chemical Weapons	Excluded
Anti-Personnel Landmines	Excluded
Cluster Munitions	Excluded
Weapons covered by United Nations Convention on Certain Conventional Weapons	Excluded
Nuclear Weapons	See below*

*\*We will not invest in companies that develop nuclear warheads or dedicated delivery systems for non-NPT nuclear-armed states, or in any activity that knowingly transfer technologies or supplies nuclear-specific components to non-nuclear-weapon states. We define “dedicated delivery systems” as platforms whose primary function is to deploy a nuclear warhead, such as nuclear-powered ballistic missile submarines (SSBNs), ICBMs, or nuclear-specific missile systems. For the avoidance of doubt, civil nuclear propulsion and Small Modular Reactor (SMR) technology is not excluded.*

*However, where a company’s nuclear-related work is conducted solely under the authority of an NPT-recognised nuclear-weapon state, it may remain investable. Our approach is designed to respect the three core objectives of the Nuclear Non-Proliferation Treaty (NPT): non-proliferation, disarmament, and the peaceful use of nuclear energy. In such cases, we apply our disciplined investment process focusing on asset-light, high-quality, cash-generative businesses purchased at sensible valuations, carefully assessing the diversification, balance sheet quality, management culture, and ESG-related risks of the business.*

This policy is written by the Head of Stewardship and reviewed by the Portfolio Managers and Compliance team, at least annually, to ensure the exclusions remain consistent with our fiduciary duty and long-term investment philosophy.





## Annex - Defence-related revenue

While we do not invest in companies directly involved in weapons manufacturing, we acknowledge that some of our portfolio companies derive revenue from defence-related activities.

Examples include:

- **Smiths Group** - Has material exposure to defence/security, primarily via its Detection and Interconnect businesses. In 2024, its Detection division accounted for approximately 28% of group revenue; many of those sales relate to detection/security technology including defence and border security. The Interconnect division also supplies components used in military/aerospace systems. The company is in the process of divesting Interconnect, and subsequently separating or selling the Detection business, in part driven by the desire to sharpen its focus onto its John Crane and Flex-Tek industrial businesses.
- **Diploma** - Controls business segment supplies high-performance electrical, connector, fastener and control products which are used in aerospace and defence end-markets among others. In FY 2023, the segment accounted for approximately £568 million of the £1.2 billion total revenue. In 2023, it was estimated that revenues derived from military sales accounted for less than 1%.
- **Microsoft** - Develops and supplies the Integrated Visual Augmentation System (IVAS) - mixed reality headsets based on HoloLens. In 2025, they partnered with Anduril to oversee product and future development, but Microsoft remains the cloud and software partner. The company positions itself as a dual-use technology provider rather than a defence prime.

