TROY
ASSET MANAGEMENT

October 2023

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Responsible Investment Report N°·10

Being Patient and Thinking Long Term

The Marshmallow Experiment

In the 1960s, a Stanford professor named Walter Mischel began conducting a series of now famous psychological studies to explore the concept of delayed gratification in children. The young participants were offered a simple choice: they could either indulge in an immediate reward, typically a marshmallow, or wait for a period and receive a double treat. The study revealed insights into self-control, willpower, and the ability to resist temptation.

Company management teams are often confronted with a similar challenge to the children in the marshmallow experiment. They can take their profit today or choose to invest now to generate more profit in the future. Their job would be far simpler if returns were known in advance, together with the cost of money at which investments were funded and discounted back to present-day values. Alas, uncertainties abound, not least with interest rates on the rise. It is easier to maximise near-term profits.

Hard yards in the long game

A similar dynamic exists in the management of risk, except the longer-term choice can appear even less appealing. Rather than focused on deferred gratification, risk mitigation can involve investments made today for the management of future calamities which may or may not happen. This is the context in which current ESG controversies can be understood. Investing in decarbonisation or better labour practices help to safeguard profitability in the years ahead and often carries a significant upfront cost for compliance.

At Troy, we believe that being patient and having a long-term focus gives us a competitive edge in investing. We look for these same attributes in the management teams of the companies in which we invest. How they approach environmental and social challenges gives vital insight into their commitment to outcomes far into the future, especially in the face of mounting short-term pressures. In some respects, it is the ultimate test of long-termism.

Over the quarter, we have had several meetings with investee companies to better understand how they are staying focused on the long term. These meetings focused on topics ranging from decarbonisation and biodiversity protection to responsible marketing and supply chain labour practices. The degree to which ESG issues can materially impact a businesses' financial health vary depending on the industry, geography, size of the business and products or services it sells. This has been most pronounced for our consumer staples holdings, hence our initial focus on the sector.

Nestlé – Strengthening the Supply Chain

Troy hosted a call with Nestlé's Heads of Dairy, Cocoa and Coffee to better understand how the company's sustainable sourcing initiatives are put into practice. Nestlé's relationship with its suppliers is a key competitive advantage; relationships are real partnerships rather than transactional ones. Some farmers have worked with Nestlé for over seven generations, many of whom are smallholders who rely on Nestlé for their livelihoods.

The rollout of various Nestlé sustainability programmes have enhanced and deepened the strength of these relationships. In January 2022, Nestlé announced their new Income Accelerator programme in which they will be investing CHF 1.3 billion until 2030. The programme involves making top-up payments to farmers conditional on them achieving specific objectives, including having their children attend school and ensuring they employ good agricultural practices that improve local biodiversity.

These measures have other benefits too. They improve supply chain resilience, enhance yields, and have contributed to the eradication of child labour in cocoa supply chains. The call also revealed the extent of Nestlé's investment in data and technology to improve raw commodity traceability. Like with all companies, there is still much to do, but we came away from the meeting confident the company was making the necessary investments today to secure its resilience far into the future.

Unilever – Decarbonisation

Unilever has long been a leader among consumer staples companies in terms of its commitment to sustainability, as evidenced by the release of their Sustainable Living Plan in 2010. The Plan started out by addressing the ways that Unilever could both reduce costs and improve sustainable outcomes, including more compact packaging to minimise plastic waste and reduce input costs.

The purpose of our meeting with Unilever was to better understand how the company is addressing the most challenging aspects of their decarbonisation goals. The company's emissions reduction targets are ambitious, aiming to achieve net zero in its supply chain and own operations by 2039. Unilever states that this comes from an assessment of what the business needs to do to align with society's expectations and is also an opportunity to stay ahead of slower-moving competition.

Nevertheless, there remain significant challenges in reducing carbon emissions in its supply chain. Indirect emissions, i.e., those from sources outside of Unilever's direct operations, account for around 98% of the company's carbon footprint. This includes emissions from raw materials, packaging, logistics and distribution. The sourcing of raw materials, which account for around half of the company's carbon emissions, is particularly complex. The challenge here is twofold: it is difficult to find cost-effective alternatives to fossil-fuel-based chemicals, and coordinating a long and complex raw material supply chain is no easy task.

Unilever has begun a process of engaging with its top 300 suppliers and supporting them in setting net-zero emissions reduction targets. We were impressed with Unilever's candour. Net zero will be demanding. It requires innovation, resources, and must be done within the context of what is commercially viable.

In the face of many unknowns, Unilever continues to invest behind their strategy. The path to net zero will not be linear and the company believes there is value in learning to work with new technologies and undergoing periods of trial and error. The longer-term commitment to transition to a low-carbon business protects Unilever from both future regulatory risk and customer scrutiny, which is why the company refuses to rest on its laurels. Unilever provides an example of a business willing to adapt and innovate in order to stay ahead of competition - essential characteristics to succeed within the fast-moving consumer goods market.

Heineken – Water Management

Troy met with Heineken during the quarter to discuss several environmental and social initiatives. Water management is the most financially material environmental issue the company faces since 95% of beer is water, and water shortages are a growing risk to Heineken's business. Of the 170 breweries Heineken operates around the world, 26 are in water-stressed areas. The company started a dedicated water strategy in 2013 that has followed a journey from improving water efficiency to replenishing the water that goes into products. This includes investments in wetland restoration, rainwater harvesting and reforestation.

In 2021, one of Heineken's key sites in Monterrey, northern Mexico, was hit with severe drought. Monterrey is a large industrial city, and although the beer industry only accounted for <1% of the city's water use, Heineken immediately ceased operations. The company collaborated with local authorities, NGOs and local businesses to divert water to meet the needs of the local population and essential services. Heineken's approach to water stewardship is exemplary and demonstrates the importance of balancing local community needs with business growth to retain a licence to operate.

Planting Trees

"A society grows great when old men plant trees in whose shade they shall never sit."

Ancient Greek Proverb

Experience has taught us that well-managed and properly governed companies are those that plan for the future. They do so by aligning themselves with wider stakeholder interests and by operating with environmental and social considerations in mind. This helps to create more adaptable and resilient businesses that can sustain high returns on invested capital over time. Our recent meetings with several companies across Troy's portfolios assure us that these are companies that are investing for the future and are well placed to deliver good shareholder returns that are sustainable over the longer term.

Sian-Azilis Evans October 2023

Responsible Investment at Troy

Signatory of: UK STEWARDSHIP CODE | 2021

Signatory of: PRI Principles for Responsible Investment

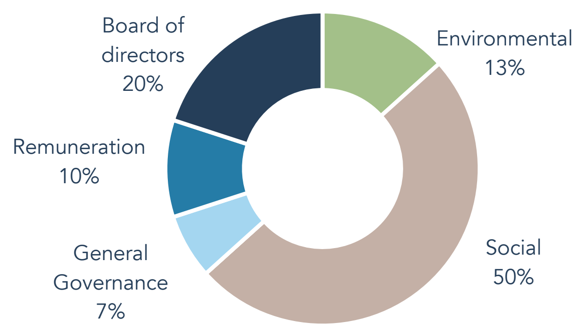
NET ZERO ASSET MANAGERS INITIATIVE

Voting

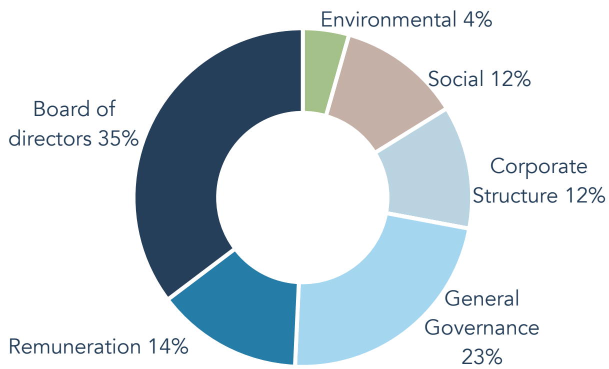
	2022	2023 YTD
Meetings Held	108	86
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	29%	48%
Management Resolutions		
Total management resolutions	1,643	1,440
Votes against management resolutions*	4%	7%
Votes against ISS recommendations	4%	9%
Shareholder Resolutions		
Total shareholder resolutions	95	66
Votes in favour of shareholder resolutions	28%	46%
Votes against ISS recommendations	17%	29%

Source: ISS. *This may include abstentions.

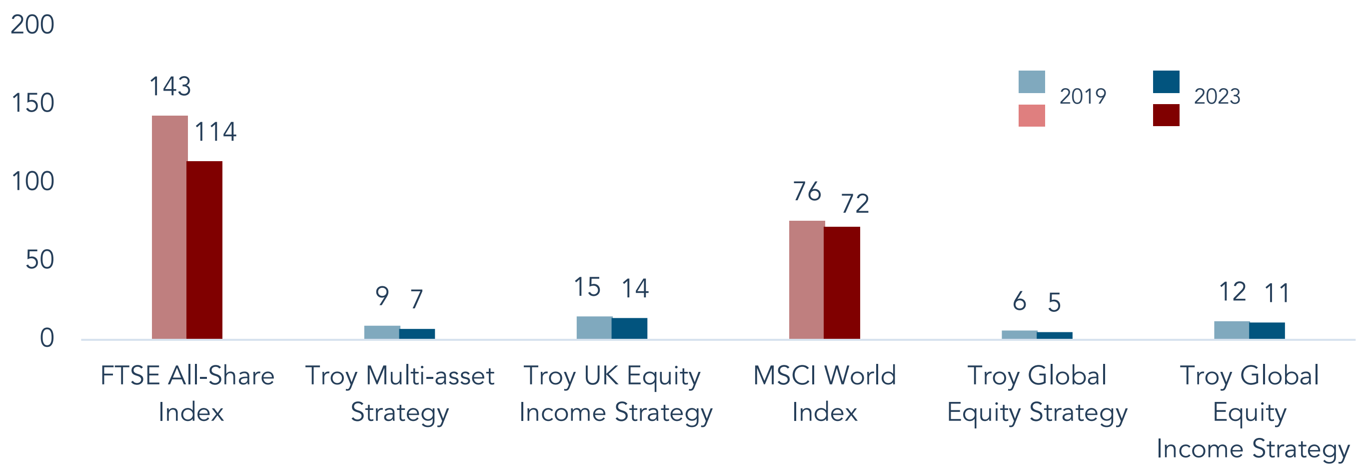
VOTES IN FAVOUR OF SHAREHOLDER RESOLUTIONS – 2023 YTD



VOTES AGAINST MANAGEMENT RECOMMENDATIONS - 2023 YTD (BOTH MANAGEMENT AND SHAREHOLDER RESOLUTIONS)

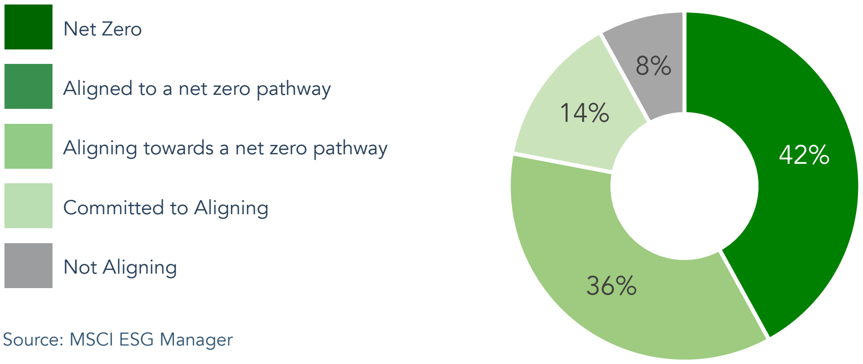


Portfolio Carbon Footprint (Tons CO2e / $M Invested)*



*Carbon footprint calculated using market capitalisation.
Source: MSCI ESG Manager, portfolio holdings as at 30 September 2023 and data as at 4 October 2023. Asset Allocation subject to change. The information provided is based on calculations relating to corporate securities only. Where the fund holds other asset classes, such as cash or government bonds, these are excluded from the portfolio. The information shown relates to a mandate which is representative of, and has been managed in accordance with, the relevant Troy Strategy. Past performance is not a guide to future performance. All references to benchmarks are for comparative purposes only.

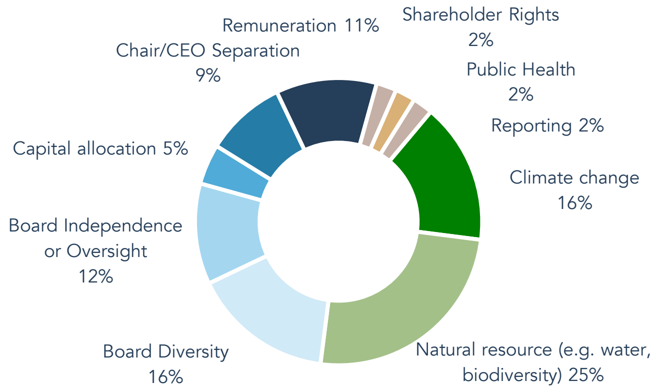
Current Alignment of our Holdings with Net Zero by 2050



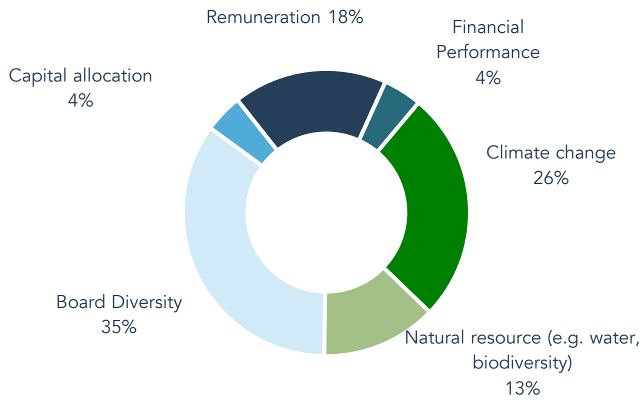
Troy has categorised all equity holdings along an alignment maturity scale in accordance with the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers initiative to ensure our investments are on track to meet global ambitions of net zero emissions by 2050 or sooner. We currently have engagements underway with all holdings deemed 'not aligning', our goal is to move all holdings along the climate maturity scale with the ultimate objective of achieving net zero. For further information please see Troy's Climate Change Mitigation Policy.[3]

Engagements

2022 - 44 ENGAGEMENTS WITH 29 COMPANIES



2023 YTD - 23 ENGAGEMENTS WITH 18 COMPANIES



Notable Firm Engagements – Q3 2023

Company	E, S or G*	Theme	Summary
International Public Partnerships	G	Capital Allocation	INPP raised its dividend by 2.5% in 2023, far below what earnings grew as well as below the rate of inflation of c. 7%. For a business that has been talking about its contracted inflation linkage of revenues, we believed that this was not sufficient. Troy engaged to understand the process behind setting the dividend policy of the business as well as to impress upon the board and management of having a dividend that is broadly tied to inflation. This engagement is ongoing.
Reckitt Benckiser	G	Financial Performance	Reckitt Benckiser have historically adopted specific profit margin targets. In our experience, absolute margin targets eventually lead to underinvestment in the business. We have seen this dynamic playing out at Reckitt Benckiser in the past. Circumstances might change and the optimal profitability might be lower or higher than any arbitrary number. By having an absolute margin target, Reckitt Benckiser lose flexibility. The objective of this engagement is for Reckitt Benckiser to stop adopting and targeting a specific margin level. This engagement is ongoing.

Source: Troy Asset Management, 30 September 2023. *Environmental, Social or Governance

[3]This policy outlines the consideration of climate risk in our investment decision-making process for mandates which meet the criteria under Article 8 of the European Union's Sustainable Finance Disclosure Regulation

Disclaimer

Further information relating to how ESG integration is applied to the fund can be found in the fund prospectus and investor disclosure document. For further information relating to Troy's approach to company voting and engagement, please see Troy's Responsible Investment and Stewardship Policy available at www.taml.co.uk.

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