



Q4 2022 Responsible Investment Report

The UN Principles of Responsible Investment Annual Conference – The coming of age of responsible investment

In the final quarter of 2022, Troy attended the PRI (United Nations Principles of Responsible Investment) annual conference. Four themes leapt out at us and form the basis of this report.

Climate, Climate, Climate

“Eight years ago, I gave my odds at 50:50 that we would retain enough stability [to prosper through the transition to net zero]. Recently I revised that down to 40:60. We are not winning this race.” - Jeremy Grantham, veteran investor, and founder of the Grantham Institute at the 2022 PRI conference.

Climate change remains the central ESG issue for many investors, but over the course of 2022 the economic sensitivities of the transition have been highlighted by the war in Ukraine and the subsequent spike in energy costs. Simultaneously, erratic global weather has reinforced the necessity of that same transition. The result is that the climate debate, which attracts dogma on both sides, has had to become more nuanced.

This refinement is illustrated by an increasing preference for an engagement, rather than divestment, led approach when seeking to address carbon intensive companies within portfolios. While divestment may have a marginal impact on the cost of capital for carbon intensive assets, it is a blunt tool that has limited

direct influence on corporate behaviour. The risk of a divestment led approach is that carbon intensive assets move beyond the purview of public markets and responsibly-minded investors, doing little to reduce the systemic risks posed by climate change. Conversely, engaging with companies can positively influence management’s decisions and encourage ‘real world’ change. That is not to say that divestment shouldn’t be a part of an investors’ toolkit; it can mitigate portfolio risk when engagement has failed.

This shift in best practice supports the engagement led approach that underpins Troy’s commitment to net zero and our established approach to climate change mitigation.

Troy started the year with 14 portfolio companies that had yet to make a commitment to achieve net zero emissions by 2050 or sooner. We have engaged with all these companies and in the last year have seen seven of them either committing to align with the goals of the Paris Agreement or announcing climate targets (See Figure 1). This now leaves only six companies (as one was sold) across Troy’s portfolios that we classify as ‘not aligning’ to a net zero pathway. All these companies remain the subject of ongoing engagement. We also continue to engage with other holdings to encourage them along the path to net zero.

Climate discussions at the conference also focused on the danger of allowing the transition to drive further inequality in society. It was this topic, in the context of the ‘global north’ versus ‘global south’, which dominated much of COP 27¹ in Sharm El Sheikh. However, the same

¹ The 2022 United Nations Climate Change Conference or Conference of the Parties of the UNFCCC, was held from 6-20 November 2022 in Sharm El Sheikh, Egypt

tensions also exist within developed market economies. In the US, where lower skilled jobs in high carbon emitting 'brown' industries risk being replaced by higher skilled 'green' jobs, the issue has driven political tensions. Companies who wish to retain their licence to operate will need to consider how they can mitigate the adverse social effect of their transition plans. Our analysis suggests most companies have further work to do in this area, representing an opportunity for continued engagement.

Nature's Role

It has been clear for a long time that the risks associated with climate and nature are inextricably linked. Nature, from sea grass and soil to pine forests and peat, gives us some of the best tools to combat climate change. As such, investors must give due consideration to the nature associated risks and opportunities of their investments.

'The lack of consciousness of how our excess capital is recycled into the economy is perhaps the biggest omission of the system' - Emmanuel Faber, Chair of the ISSB, 2022 PRI Conference

The recommendations of the TCFD provide a framework for addressing the systemic risks posed by industrial emissions.² The conference reflected a clear appetite for a similar framework for assessing nature-related risks and opportunities. The ongoing development of the Taskforce on Nature-related Financial Disclosure (TNFD) and the launch of Nature Action 100 at COP 15 in Montreal will go a long way to informing best practice in this area.³

While Troy's portfolios have relatively little exposure to carbon intensive sectors, several of our largest holdings, including Nestlé, P&G and Unilever, have important agricultural supply chains. This creates a material exposure to a

number of environmental factors captured under the umbrella of nature. In recent years we have sought to understand these risks better through thematic research on water scarcity, biodiversity and deforestation. We have also engaged with companies on these issues both collaboratively (through the Carbon Disclosure Project) and bilaterally. Nature-related issues accounted for almost a quarter of Troy's total 2022 engagements with the focus mostly being on enhancing disclosure at this stage.

Lobbying – An alarm bell

A major challenge for responsible investors is to go beyond the glossy corporate sustainability reports and layers of policy, to uncover how businesses are actually behaving.

Over recent years the analysis of lobbying spend has emerged as an important tool in this endeavour. The way companies seek to influence regulation and policy has not always been well aligned (and in certain instances has been in direct contradiction) with the messages in their sustainability reporting. Whether it be in relation to matters such as vehicle emissions regulations or mineral exploration rights, corporate lobbying wields significant influence and provides insight to investors on whether companies are 'walking the walk'.

Although there were relatively few lobbying related shareholder resolutions tabled at the 2022 AGMs of Troy holdings, Troy has supported resolutions demanding lobbying disclosure at Meta and Alphabet. The absence of oil & gas companies across Troy's portfolios meant we did not see lobbying resolutions in relation to climate issues for Troy holdings in 2022. However, as active participants in the Climate Action 100+ engagement with Unilever, we have seen the issue of lobbying rise up the proposed agenda.

² Taskforce on Climate-related Financial Disclosure

³ V0.3 of the [Taskforce on Nature-related Financial Disclosure](#) framework is currently out for consultation. Further details of [Nature Action 100](#) can be found at <https://www.natureaction100.org/>.

COP 15 is the 2022 UN Biodiversity Conference of the Parties to the UN Convention on Biological Diversity, held in Montreal from 7-19 December 2022.

We expect to see the increased scrutiny of lobbying in 2023 and look forward to the insights this may provide.

Trust in ESG

Whilst the conference's title "The coming of age of responsible investing" reflects the advances responsible investment has made over the last decade, it also alludes to the trials associated with its passage to maturity. The process of introspection that has followed energy market disruption, higher inflation and geopolitical instability has highlighted a number of risks. At one end of the spectrum, investors seeking impact have periodically driven up the valuation of so called 'ESG-positive' and 'green' investments (although recent market moves have seen some correction here). At the other end, the proliferation of responsible investment terminology and strategies has elevated the risk of a mismatch between investor expectations and the ESG performance of their investments.

This is not surprising. In the same way that biological proliferation and evolution has always spiked after great geological extinction events, ESG evolved rapidly out of the aftermath of the Global Financial Crisis (GFC), taking many shapes, from ethical investing to impact investing. The role of rationalising this expansion has fallen to regulators. While a regulatory framework is necessary to ensure the continued healthy growth of responsible investing, it also comes with risks to future innovation and diversity of offering.

The wave of new ESG regulation breaking over the industry includes separate frameworks from the EU, UK and US regulators. Troy has already classified several of its Funds as Article 8 under the EU's SFDR⁴ framework and is currently navigating the UK's Sustainable Disclosure Requirements regulation. Details of the US Securities Exchange Commission's ESG regulation have yet to be made public.

As we navigate these new pieces of regulation and the wider 'coming of age' of ESG, we are excited by what responsible investment has to offer investors. We continue to ensure we stay true to Troy's investment philosophy and adhere to our core responsible investment principles of materiality, long-termism and engagement. As ESG further matures and global reporting standards consolidate we see increased long-term value and opportunity arising from collecting insights on ESG factors. These augment our research and build a richer mosaic of information from which to judge the quality and sustainability of our investments.

Hugo Ure
February 2023

⁴ The Sustainable Finance Disclosure Regulation (SFDR) is a European regulation introduced in 2021 to improve transparency in the market for sustainable investment products.

Figure 1.

Stocks 'Not Aligning' at Start of 2022	End of 2022	Engagement Status
3i Infrastructure	Not aligning	Engagement Ongoing
Alcon	Committed to aligning	Success: committed to carbon neutrality by 2030 on path to net zero.
CME Group	Not aligning	Engagement Ongoing
Diploma	Aligning	Success: Net zero by 2040 for direct ops, (2050 for supply chain), Science Based Targets initiative (SBTi) validated targets set in FY23.
Domino's Pizza Group	Aligning	Success: Set emission-reduction targets validated by Science Based Targets initiative (SBTi) and a decarbonisation strategy.
Fastenal	Committed to aligning	Success: committed to net zero by 2050.
IntegraFin	Not aligning	Engagement Ongoing
Nintendo	Not aligning	Engagement Ongoing
Paychex	Committed to aligning	Success: committed to net zero by 2050.
Primary Health Properties	Committed to aligning	Success: committed to net zero by 2050.
PZ Cussons	Committed to aligning	Success: committed to net zero by 2050.
Take-Two Interactive	Not aligning	Engagement Ongoing
Western Union	Sold	Engagement Discontinued

Source: Troy Asset Management Limited, 31 December 2022.

Responsible Investment at Troy

UK Stewardship Code



United Nations' Principles for Responsible Investment

Signatory of:



Net Zero Asset Managers Initiative



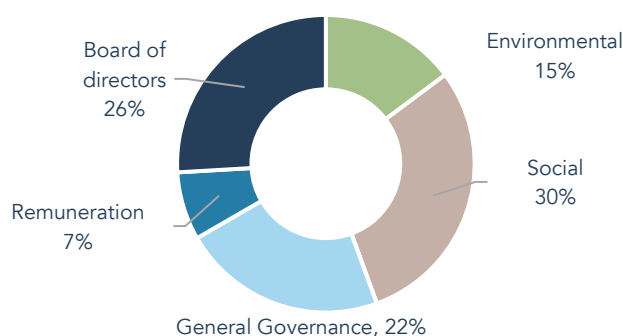
Voting

	2021	2022
Meetings Held	142	108
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	23%	29%
Management Resolutions		
Total management resolutions	1,975	1,643
Votes against management resolutions*	2%	4%
Votes against ISS recommendations	3%	4%

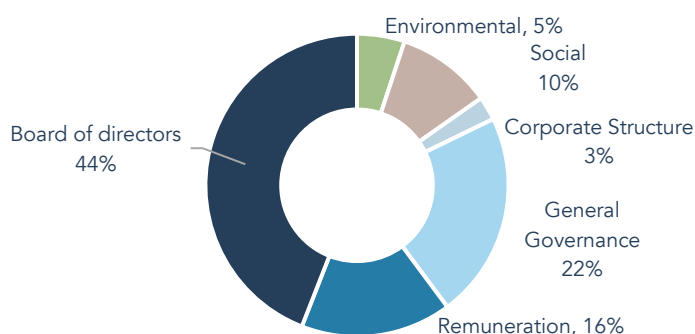
Shareholder resolutions		
Total shareholder resolutions	59	95
Votes in favour of shareholder resolutions	44%	28%
Votes against ISS recommendations	15%	17%

Source: ISS. *This may include abstentions.

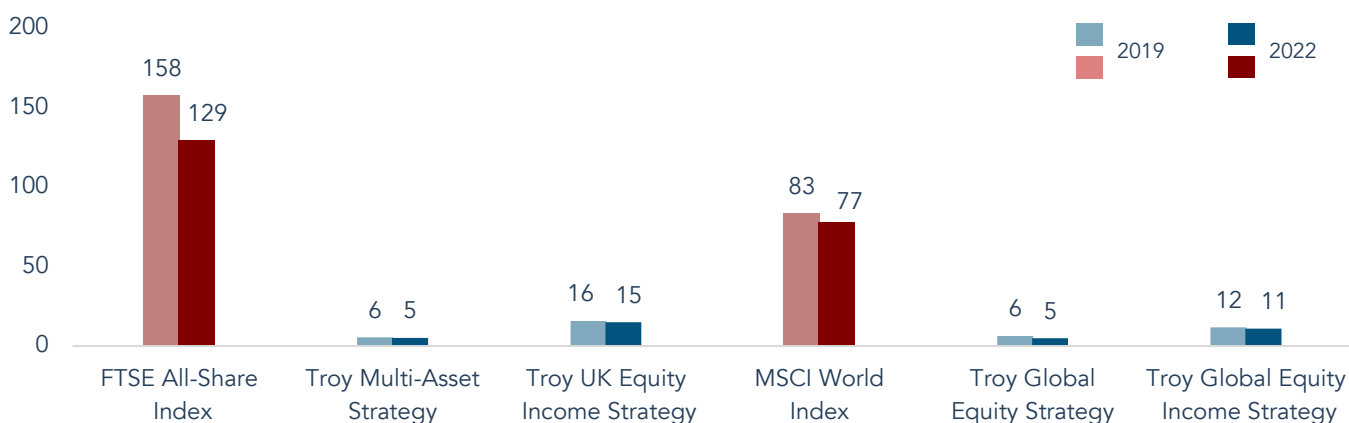
Votes in favour of shareholder resolutions – 2022



Votes against management recommendations – 2022 (both management and shareholder resolutions)



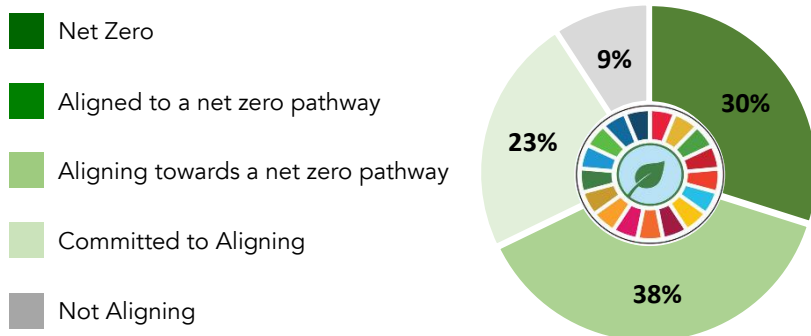
Portfolio Carbon Footprint (Tons CO2e / \$M Invested)*



*Carbon footprint calculated using market capitalisation.

Source: MSCI ESG Manager, portfolio holdings as at 31 December 2022 and data as at 4 January 2022. 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.

Current Alignment of our Holdings with Net Zero by 2050



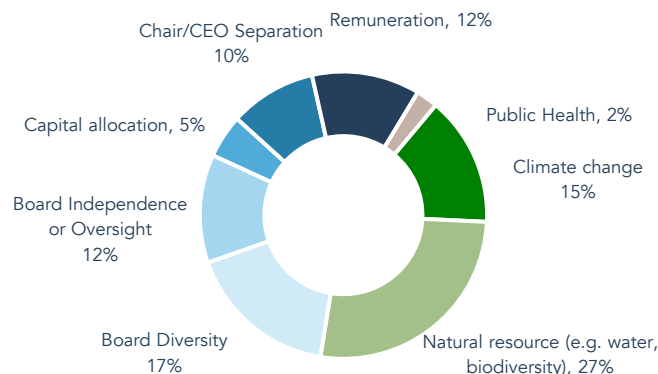
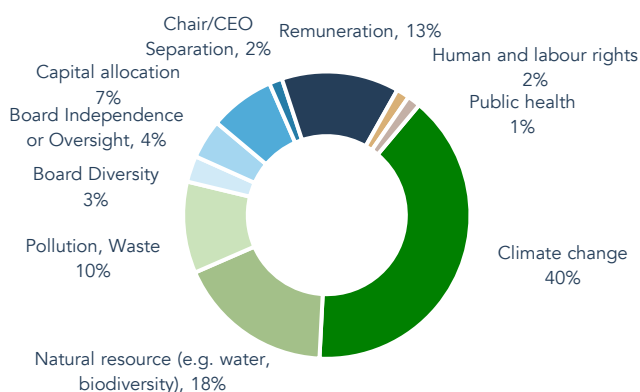
Troy has categorised all equity holdings along an alignment maturity scale in accordance with the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers initiative to ensure our investments are 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](#).⁵

Source: MSCI ESG Manager, 31 December 2022.

Engagement

2021 - 68 engagements with 47 companies

2022 - 43 engagements with 29 companies



Notable Firm Engagements – Q4 2022

Company	E, S or G	Theme	Summary
Aveva	G	Shareholder rights	Schneider Electric proposed a bid for the remaining minority stake in AVEVA that they did not already own. Following shareholder interest, Investor Forum engaged with the board to ensure the sale price sufficiently reflected the long-term value of the company. The objective of this collaborative engagement was to understand the board's justification and thinking in regards to the offer and its possible acceptance and to ensure the offer price was as full as could be achieved. Following a discussion with Investor Forum and the AVEVA chair it became clear the price proposed reflected tough negotiation by the AVEVA board and we are to expect no ground-breaking further response from the board. This engagement has been closed as we have subsequently sold our holding in the company.

Source: Troy Asset Management, 31 December 2022.

⁵ 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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